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AUTHOR McIntyre, Chuck
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ABSTRACT

Based on an examination of the socioeconomic factors likely to affect community college financing in California from 1980 to 1985, this report presents recommendations for community college fiscal legislation during the state's 1981-82 legislative session. The report first outlines 17 assumptions concerning future trends in community college mission and finance, including the increased participation of non-traditional students, the desirability of maintaining a comprehensive curriculum, the removal of most statutory cost of living increases, and the continuation of local governance patterns. A general approach to financing the California community colleges is then discussed, calling for the removal of certain existing constraints on the use of college resources, the development and implementation of a new compliance process, the continuing reliance on state and local taxes for operating revenue, and the improvement of fiscal decision-making. The report then provides seven recommendations: (1) restrict user fees to those currently authorized: (2) obtain a greater share of property tax revenues: (3) implement specified changes in the criteria for allocating funds to colleges: (4) limit categorical aid: (5) rely on current sources of capital outlay funds: (6) revise capital outlay planning procedures: and (7) reduce constraints on the use of funds. Appendices illustrate several influencing factors, such as faculty salaries and enrollment projections. (JP)

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FINANCE PROJECT

Agenda Item 8

Chuck McIntyre
Director
Analytical Studies

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Report prepared for the Meeting of the
Board of Governors of the
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Board of Governors of the
California Community Colleges
December 4-5, 1980

Item 8

Title: Finance Project

Staff presentation: Chuck McIntyre, Director
Analytical Studies

Summary

1. This item summarizes the finance project, including relevant assumptions about the future, a suggested general approach, preliminary staff recommendations, and topics for further study.

2. Final action on policy recommendations by the Board and introduction of community college finance legislation are scheduled for February 1981.

3. Assumptions about future conditions relevant to community college finance should be confined to the near term (1980-85). During this period, the state's population demographics, social institutions, and general life styles are relatively certain; trends in the economy and public policies are uncertain.

4. The general approach of financing California Community Colleges should reflect the unique character of these institutions: separate from the public elementary and secondary school system and unique among postsecondary institutions for their comprehensive, community-based mission.

   Formula funding should be expanded to include capital outlay, as well as operating budgets. Future changes in categorical aid should be restricted to expanding and improving those programs already in existence. Planning and compliance processes should expand local flexibility while, at the same time, improving state-level accountability for major educational objectives.

5. Development of specific policy recommendations for finance legislation begins with a review of the Board of Governors' Long-Term Finance Plan: Recommendations for the 1980's (adopted in 1979) along with subsequent legislation. Many of the Plan's features for funding the operating budgets of community colleges were contained in AB 8 (1979). Few of the Plan's proposals for capital outlay funding were incorporated in AB 1171 (1980).

6. At its November 14 meeting, the Budget and Finance Committee asked that this item be brought before the full Board for discussion.

COMMUNITY COLLEGE FINANCE PROJECT

BACKGROUND

The objective of this project is to develop community college finance legislation for introduction early during the 1981-82 legislative session. Provisions of AB 8 (1979), which fund the operating budgets of college districts, expire after 1980-81. Likewise, provisions of AB 1171 (1980) to fund community college capital outlay cease after 1981-82. Consequently, legislation needs to include both operating and capital funding.

Staff work on the project continues. Meetings of the Finance Task Force (See Membership in Appendix A), Chancellor's Office Executive Staff, Organizations Group, state-level executive and legislative analysts, and other groups have begun and will continue through the Spring of 1981.

Following review of policy options by the Board in December 1980, final action on recommendations is scheduled for early February 1981. Legislative consideration will begin that same month.

This item discusses assumptions about the future that are relevant to community college finance planning, a suggested basic approach, specific policy options for legislation, and topics for further study.

ASSUMPTIONS

Future conditions, both external as well as internal to postsecondary education, are important to the development of community college finance policies. There is a need to consider possible futures, even though much is unpredictable.

Important to community college education are future trends in general conditions: the stability or instability of existing social institutions and general lifestyles. Fluctuations in economy, generally, and in the labor market, specifically, affect enrollments and the planning and funding of different kinds of instruction. Possible future changes in public policies, potential tax revenues, and the operation of other segments of postsecondary education also will affect community colleges.

Staff has conducted a preliminary review of possible future conditions and trends (See Appendix B). What do these possible conditions mean for community college finance? First of all, given the usual life of community college finance policies and the uncertainty of many future conditions, it is impractical to plan much beyond the "near term" (1980-85). Consequently, assumptions about relevant trends should be confined generally to this period. Within this framework, a number of observations are pertinent.

1. In the near term, there will be limited changes in California to general lifestyles, social institutions, and the state's occupational structure as they now exist. At the same time, demographic trends are relatively certain. Consequently, community colleges can plan for more older, part-time, minority, and female students.

2. There will be relatively more demand for instruction in business and service occupations, an increasing need for developmental instruction in certain basic skills, and a relative increase in the need to offer certain support services, such as in the student personnel service area. Growth in relatively high cost activities hopefully will tend to be balanced by growth in relatively low cost areas.

3. California Community College enrollments are projected to increase by more than 12% during the next 5 years. Expected near term economic conditions suggest that these projections (based solely on demographics) may understate the growth potential in the colleges during the first half of this decade.

4. Potential growth in state and local public expenditures for 1981-82 ranges between 4% and 12%, with relatively conservative "mid-range" projections falling at just over 7%. A strong case needs to (and can) be made for community colleges to receive their share of this growth since the colleges do not now have cost-of-living provisions "fixed" in statute and also may be subject to "AB 8 deflator" adjustments, if implemented.

5. The second major impact (the first being 1978-79) of Proposition 13 appears to be a one-year, 1981-82, phenomenon. Once public revenues and expenditures are reconciled to the loss in state general fund surplus, growth in the California public sector beginning in 1982-83 can proceed at annual rates possibly exceeding 10% at times, but always subject to the Gann limit.

6. Most, though likely not all, existing statutory cost-of-living increases will be removed and these state and local programs (including community colleges) will be subject to annual review of funding for inflation.

7. It appears that the annual increases in funding for community colleges during the 1980's will be less than that experienced during the 1970's. Barring new sources of funding, more effective use will need to be made of existing resources, if both cost-of-living and potential student growth are to be accommodated.

8. Projected near term conditions support the continuation of California Community Colleges as locally-governed institutions.

9. Policies affecting major changes in the comprehensive community-oriented mission of the community colleges are neither warranted nor necessary.

10. Specific and explicit policies, however, may be needed to deal with emerging changes in community college efforts at lower division transfer, developmental, and community education. Specific efforts

also may be needed in occupational education problem areas concerning youth unemployment, plant closures, and emerging technologies.

11. The possibility of smaller future funding increases and the specific uncertainties facing districts support a policy that districts have even greater flexibility in the future to plan and allocate their resources in response to local needs.

12. While policies should encourage the colleges to secure alternative sources of private and federal funding, these sources must be considered supplemental. No major shift in the present reliance on public (state general fund and local property) tax revenues is warranted. User fees can and should be limited to those presently authorized. The future of federal funding is uncertain.

13. Relatively greater support of community colleges from local property tax revenues would be consistent with continued local governance of the colleges and with the relationship of college workload to the economy.

14. Future funding policies need to be more stable than they were during the 1970's.

15. Policies may need to recognize potential increases in the disparity between measures of classroom contact hours and other measures of activity, such as enrollment which more closely reflect the cost of nonclassroom workload.

16. Funding techniques should provide for both growth and decline in the enrollment of specific districts.

17. Relatively more community college funds will need to be devoted to those activities that maintain and upgrade existing community college resources: upgrading and development of staff, repair and maintenance of buildings, and similar efforts.

GENERAL APPROACH

The general approach to financing California Community Colleges should reflect the unique character of these institutions. Community colleges have established their own identity as institutions for lifelong learning, separate from the public elementary and secondary school system and unique among postsecondary institutions for their comprehensive, community-based mission.

Increase Local Flexibility

College districts are governed by a locally-elected board of trustees. Programs offering lower division training leading to transfer are, like those of the University and State University and Colleges, part of traditional higher education. However, community colleges also have major responsibility for occupational training, similar to some of the activities in K-12 adult schools, Regional Occupational Programs, and private proprietary schools. Finally, community colleges have assumed a wide array of developmental, continuing, and community education functions.

Currently, there are 70 districts (each with a governing board), 106 colleges, and over 1,000 off-campus out-reach centers that enroll 1,300,000 students from virtually every community in California. Even aside from philosophical considerations of governance, the sheer size and scope of college activities argues for strong, decentralized local management of these institutions.

Four-fifths of community college funding is now derived from state general funds. Consequently, there is major concern that the fiscal decision-making process, historically focused at the local level, will shift now to the state level.

Emerging and projected future conditions suggest that such a shift in the focus of fiscal decision-making would be counter productive. In fact, community colleges need greater flexibility if they are to continue to be community-oriented, become more cost-effective (as they must with scarce funding), and set priorities effectively. This includes flexibility to allocate funds among competing local uses and to plan and manage college operations. This greater flexibility can be accomplished in part by removing some existing legal constraints on the use of college resources together with a major change in college accountability from emphasis on short-term efforts to emphasis on long-term planning and results.

Continue to Develop and Implement a New Planning and Compliance Process

Existing constraints and mandates on use of college resources in the Education Code and Title 5 are being reviewed in order to eliminate those provisions that are either unnecessary or undesirable. Legislation for this purpose will be introduced in Spring 1981. Along with this, the Chancellor's Office will develop and implement a new compliance process. This process will include new sanctions for noncompliance with a relatively few, most important statutory mandates. This work will continue throughout 1980 and 1981 with full implementation scheduled for 1982.

The planning component for this effort, as suggested in the Board of Governors' Long-Term Finance Plan, would establish state objectives for the colleges, asking local districts to evaluate and plan each year with both state and local objectives in mind, and then identifying the need, if it exists, to fund new and revised programs within the annual state budget process. This proposal envisions a continuation of fiscal support, through statute, to meet the costs of inflation and enrollment changes. This planning and evaluation process could expand current state concerns with serving particular student populations (including the disadvantaged and handicapped) to a more comprehensive concern with such objectives as staff development, student support services, administration improvement, and development of high priority curricula, without resort to a series of categorical aids or further constraints on the use of district resources.

As state-level planning is modified, districts should engage in interdistrict and/or regional cooperative planning with other suppliers of post-secondary education. Rather than mandated for specific geographic areas, these efforts should be locally initiated and their scope fit the problem at hand. For example, most occupational program planning should take

place with reference to regional labor market areas and involve proprietary as well as public institutions. By contrast, cooperative planning for continuing and community education would be more narrowly defined, in a geographic sense, and more often involve K-12 adult schools and local public agencies such as libraries, recreation, and park districts.

Under this policy, specific delineations of function for adult basic, continuing, and occupational education would continue to be determined on a local basis, within the respective general roles of the involved public educational institutions: ROC/P's, K-12 adult schools, community colleges, University of California, and California State University and Colleges.

Rely on Tax Revenues

Community colleges should continue to rely primarily on state general fund and local property tax revenues for support of their operating budgets.

Current projections suggest that state and local tax revenues, particularly after 1981-82 will be sufficient to serve as the primary support source for California Community Colleges during the 1980's. It is expected that these revenue sources will increase at rates somewhat below those of the 1970's; possibly exceeding 10% annually at times, but always subject to the Gann limit. Other funding sources such as federal funds, user fees and private contributions may increase, but still should be considered as supplemental.

Inflation in the cost-of-living is expected to average around 9% annually during the next five years. If this is the case, then in order to keep staff compensation in line with the cost-of-living, college revenues must increase by at least 10% each year. (This also covers the nonsalary inflation that currently consumes between 2 to 3% of the colleges' annual cost increase.)

If revenue increases, including both state general fund and local property taxes, also average around 10% annually (a "reasonable" assumption), this would support inflation, but not the potential growth in students that is projected for community colleges.

This expected growth in enrollment could be accommodated if more "optimistic" revenue projections, where state general fund revenues increased by more than 10% annually and where local property taxes continued their current growth, were to prevail. (The Gann limit, which would hold expenditure growth to increases in the cost-of-living plus student growth, will generally exceed the growth in revenue and will not be a controlling factor.)

Assuming the "reasonable," less-optimistic projections of state and local tax revenues (10% annual increase) prevail, what are the options? Supplementary sources do not appear to be the answer. Policies proposed by the new federal administration suggest that federal funds will not be an increasingly significant supplementary source of income for community colleges. Increased defense spending, along with proposed tax reductions and a balanced budget, must result in decreased spending in other areas, one of which is education.

Greater reliance on the other major source of income, user fees, will not solve the problem either. Imposing a general tuition, for example, would raise additional funds, but detract from the very objective (student growth) it was designed to support. Tuition would deter from enrollment those same individuals (part-time, low income, minority, older, and female students) who are expected to comprise most of the near-term growth in California Community College enrollments.

Thus, under reasonable revenue projections, districts may have to become more effective or "productive" (educating more students with the same number of staff) if student access is to be maintained and if, at the same time, staff compensation is to keep pace with increases in the cost-of-living. Under more optimistic revenue projections, both inflation and student enrollment may be accommodated without necessarily changing college productivity in a major way.

The above discussion applies to college operating budgets. Capital outlays, as a result of AB 2973 (1980) will be funded from dedicated tidelands oil revenues. Unless current general fund revenue projections prove to be much too high, legislative priorities change, and/or inflation in building and equipment costs increase at much more rapid rates, this dedication (of $125 million annually for community colleges, California State University and Colleges, and University of California) should be sufficient to fund community college capital outlays during the next five years.

Improve Fiscal Decision Making

Issues of major importance to fiscal decision-making can be analyzed with reference to several components of the process: appropriation, distribution, use, and accountability.

It is possible that community colleges will not again be subject to statutory "open ended" appropriations for growth in students funded automatically without limits. If this is the case, limits on the total state appropriations for community colleges are likely. It is possible also that annual increases for inflation will be set in budget or statute for no more than one year at a time.

In establishing annual appropriations for community colleges, it is essential that inflation, possible growth, and programmatic changes be identified accurately. Even though there may be limits on state appropriations, these funds and local property taxes may interact in one of several ways. Local revenues may:

a. supplement a fixed total state general fund amount (the SB 154, 1978 technique);

b. partially substitute for state general funds, whose upper limit is fixed, such that if local taxes exceed expectations, greater-than-planned student growth (AB 8, 1979 technique) or inflation can be funded; or

c. fully substitute for state general funds within a fixed total revenue appropriation. (AB 1171, 1980 technique.)

Once appropriations are determined, funds should be distributed among districts by objective formulas, except for certain subjective elements in the funding for categorical programs and major capital outlay projects. Basic factors in these formulas should be described in statute. Specific values or parameters for these factors can be set in the Education Code by the Legislature or, for greater annual flexibility, in Title 5 by the Board of Governors.

Formulas currently determine the distribution of $1.2 billion among districts for their unrestricted use in support of operating budgets. At the same time, a very complex project review process governs the distribution of relatively few capital outlay monies (just over $20 million for 1981-82) for major projects. There is no funding process for minor capital outlay projects. The capital outlay planning and review process needs to be simplified, minor project funding added, and the use of formulas to distribute capital funds among districts expanded.

Allocation and use of both operating and capital funds by districts should be determined by local decisions with as few statutory constraints as are necessary to insure colleges meet certain minimum standards of operation. Accountability for the use of these funds would be accomplished largely through the planning and compliance process described above together with accreditation and other externally imposed requirements by agencies such as the federal government.

By contrast, a variety of planning, review, and evaluation constraints are placed upon districts with regard to the use of categorical aid funds. With the exception of the Fund for Improvement of Instruction, these categorical aid programs emphasize specific kinds of student clientele such as the handicapped, economically disadvantaged and others. Future funding for categorical aids should be devoted to the expansion and improvement of existing categorical programs, rather than for the establishment of new categorical programs. Rather than implementing categorical aids for emerging concerns such as high priority curricula, support services, and staff development, the more appropriate approach is to acknowledge such items as major objectives to be addressed within the planning process noted above.

Propose Short and Long-Term Policies

Operating budget revenue increases for community colleges during 1981-82 may be significantly less than those in 1982-83 and thereafter. Consequently, finance legislation needs to avoid "long-term" solutions appropriate only for 1981-82. This legislation, however, also needs to incorporate certain, one-year, provisions applicable to 1981-82, but not thereafter.

If the level of revenue increase (perhaps as little as 4 or 5%) expected for 1981-82 were to prevail throughout the 1980's, increased user fees, including general tuition for California residents, would need to be considered as a significant source of college revenues. Only in this way could the college mission and the quality of college programs be

maintained, given expected increases in resource costs. Since 1981-82 funding is likely to be atypical, however, a general tuition (not easily reversed once adopted) is not appropriate. (Other disadvantages of such a policy are discussed below.)

Continuation of an AB 8-type structure requires a decision each year on the aggregate amount of public monies to be put toward inflation or cost-of-living increases as opposed to workload or enrollment growth. If the 1981-82 increase is 5 or 7%, most, if not all, of the increase would need to be put toward inflation. Serving the potential college enrollment growth would be second funding priority. Enrollment growth would not be prohibited, it would simply not be funded or funded only for certain growth areas with expanding population. If revenues are higher-than-expected, moderate funding for enrollment growth, as well as inflation, will be possible.

The expected level of 1981-82 revenue also makes difficult introduction of any policies that require new or additional funding. Such new policies, several are proposed, may need to be scheduled to begin in the second year (1982-83) affected by the finance legislation.

PRELIMINARY RECOMMENDATIONS AND OPTIONS

Development of recommended finance legislation begins with review of the Board of Governors' Long-Term Finance Plan: Recommendations for the 1980's and subsequent legislation. Many of the Plan's features for funding the operating budgets of community college districts were incorporated in AB 8 (1979). Relatively few of the Plan's features for capital outlay funding were incorporated in AB 1171 (1980).

The following recommendations are preliminary and intended to serve as a basis for further discussion and analysis. Each recommendation may be implemented in a variety of specific ways.

Summary

1. Restrict user fees to those currently authorized, encouraging adjustments for those unable to pay.

2. Obtain a greater share of local property tax revenues.

3. Retain the basic structure of AB 8 (1979) for appropriating and distributing operating budget funds to community colleges. Under this structure, district base budgets (prior year funding) are adjusted yearly for inflation, workload, and, possibly, programmatic changes; but,

   a. include inflationary adjustments that permit maintenance of program quality;

   b. make more significant and equitable annual adjustments for unwarranted disparities between districts in total revenues, relying on such factors as (1) pre-Proposition 13 assessed value per ADA and tax rates along with (2) current measures of revenue per ADA, access, and program;

c. use measures that are more "cost-related" to fund workload changes in instruction and support services, relying on the "incremental cost" concept;

d. add an explicit funding provision for community services where partial state funding would be combined with user fees and other revenues;

e. add a funding provision for state matching of private funds from business, labor, and public agencies to supplement the existing support of occupational education; and

f. add a funding provision for differentially higher support of college centers, enrolling between 500 ADA and 3,000 ADA, while retaining existing differentials for small districts and small colleges.

4. Limit categorical aids to those currently in operation for

programs and services for handicapped,
extended opportunity programs and services (EOPS) for the disadvantaged,
child development,
the fund for improvement of instruction,
student affirmative action, and
bilingual teacher education,

and support increases in these programs for inflation, workload, and achievement of objectives, but

a. increase the Fund for Improvement of Instruction, designate more use of this fund for specific concerns such as staff development, and establish provisions for matching other funds; and

b. revise funding formulas for the handicapped if so indicated by the results of a legislatively-required study.

5. Rely on the Capital Outlay Fund for Public Higher Education (COFPHE), as specified in AB 2973 (1980), for support of community college capital outlay.

6. Revise the basic structure contained in AB 1171 (1980) for community college capital outlay planning and funding:

a. simplify and decentralize the major project review process;

b. add minor project entitlement formulas to fund remodeling and alterations, major maintenance, and equipment replacement projects of less than, say, $250,000;

c. increase state-level assistance to districts in planning and utilizing facilities and dealing with energy problems; and

d. introduce a new capital outlay post-audit and evaluation process in conjunction with emerging efforts in planning and compliance; and

e. expand incentives for the use of other funds to supplement the COFPHE allocation for capital outlay.

7. Reduce Education Code and Title 5 constraints on districts' ability to plan and allocate resources, in conjunction with planning and compliance efforts, specifically:

a. reduce existing restrictions on independent study and

b. reduce existing restrictions on calendar and course scheduling, while retaining the 175-day academic year.

Specific Recommendations and Options

1. *Restrict user fees to those currently authorized and encourage adjustments for those unable to pay.*

The projected near term (1980-85) revenue increases for community colleges, even if significantly below 10% next year, do not warrant imposing a general tuition on California residents.

User fees have and will continue to become a greater part of the support of community services. Also, colleges are permitted to charge students about 20 separate fees for various kinds of services ranging from field trips to parking. Colleges also may charge a cost-based tuition to students who are not residents of California.

Federal financial aids to defer the costs of some of these charges are available to full-time students with low or middle incomes. Many part-time students and those enrolled only in community service classes or activities are not eligible for financial aid.

Among the major issues regarding the possible imposition or increase of tuition and user fees are: (a) the number and kind of students lost and the resulting "redistribution of income and opportunities" from increased charges; (b) level of revenue raised by increased charges; (c) charges at UC and CSUC and the resulting "balance" of lower division enrollments; and (d) the role of individual risk and uncertainty in justifying public, as opposed to user, support of community college education.

Preliminary staff study indicates that a $100 tuition charge at community colleges may result in a 10%-15% decrease in enrollment. It is likely that disproportionate numbers of low income, minority, part-time and female students would be lost if community college tuitions were levied. These results contrast with research on

full-time students at four-year institutions where, it is estimated, a $100 increase typically results in not more than a 3% enrollment decrease. (CPEC recently used a 5% enrollment decrease in conjunction with a $100 tuition.)

The different response by community college students is to be expected. An increase of $100 in costs represents nearly a one-third increase in the cost (fees plus transportation for the typical community college student across the nation. The typical community college student also may be more sensitive to cost increases, for a variety of reasons, than is the younger, typically full-time student in the four-year institution.

Experience in Fall 1978 with fees for noncredit courses supports this argument. Twenty districts levied fees averaging $15 per course, although the variation in charges between districts was dramatic. While expected student fee revenues (an estimated $870,000 statewide) were not significant, the impact upon enrollment in fee-supported classes appears to have been significant. Approximately 1,000 such noncredit courses for which fees could be charged were scheduled to be offered. Nearly 900 of these were cancelled subsequently because fees were charged and resulting enrollments were insufficient to make the courses self-supporting.

2. *Obtain a greater share of property and other local revenues.*

Until 1978, community colleges received more than half their support from property taxes (See Appendix C). This sharing changed as a result of Proposition 13. Property taxes were reduced to 30% of college costs and state general fund support increased through the "bail out" to 70%. In 1979, property taxes were decreased further to 20% of college revenues in the Legislature that shifted property tax support from K-12 and community colleges to cities, counties and special districts.

Several arguments may be made in support of increasing the proportion of community college operating budgets supported by local taxes. One, somewhat theoretical, argument is that a significant portion of the benefits of any community college are bounded locally: that is, individuals within a community college's service area or labor market area benefit to a greater extent from the college's programs than do individuals outside the area. Consequently, those within the service area should contribute to a greater extent.

The tax on property does constitute a relatively stable source of revenue which should exhibit a generally predictable growth pattern, assuming no further rate changes are legislated. In contrast, state general fund revenues rise and fall in a fashion that is "counter cyclical" to community college revenue needs. If the economy is down, growth in state general funds slows. At the same time, community colleges enrollments (and revenue needs) increase largely because of those under or unemployed individuals who enroll for job retraining, upgrading, or to enhance the quality of their lives.

Increases in property tax revenue following Proposition 13 have been greater than expected. The Constitution limits assessments to an annual increase of 2% for existing properties plus current assessments for properties changing hands and for new properties. This has resulted in greater-than 10% annual increases.

Another argument for local tax support of community colleges is that its existence preserves a strong local voice in college decision-making and provides the incentive for local boards to effectively represent local needs. This may well be the case. However, review of funding sources and techniques in other states does not generally support the popular notion that control of decisions follows the major source of funding. There is no reason to believe that, short of close to 100% state or 100% local funding, the division of state and local prerogatives need be precisely related to the decision of fiscal support.

In keeping with the justification for a significant local share and local commitment, local districts should have the capability to authorize and manage local nonproperty taxes that might be voted by two-thirds of electorate, as per Proposition 13, specifically for community colleges. Recent legislation (AB 2345, 1980) appears to provide this authorization.

There also need to be incentives in community college funding formulas for districts to engage in cooperative arrangements with other local public agencies such as cities, counties, and special districts.

3. *Retain the basic structure of AB 8 (1979) for appropriating and distributing operating budget funds to community colleges. Under this structure, district base budgets (prior year funding) are adjusted yearly for inflation, workload, and, possibly, programmatic changes.*

(See Appendix D for illustration of an AB 8 type finance formula.)

The general stucture of AB 8 appears to be the best of those formulas used to fund community colleges over the past decade. This structure is more closely related to workload and cost changes than were any of the five techniques used in the 1970's. Further, the AB 8 structure is somewhat more predictable for planning and appears to possess the fewest incentives for unwarranted expansion or omission of programs.

"Tax rate control" techniques were used prior to 1973 and again between 1976 and 1978 just prior to Proposition 13. More than half of college revenues were raised by applying unequal tax rates to growth in assessed property values. The result had little or nothing to do either with cost, inflation, or workload changes.

Under "revenue control" between 1973 and 1976, added ADA was supported at an average rate, largely from state general funds. This level of funding exceeds the actual added cost, providing significant incentives for growth. By contrast, reducing the budget of a district whose enrollment decreases by an average rate, is inappropriate since expenditures can't be reduced by an equivalent amount. This is not a desirable policy if, as expected, enrollments in a number of districts decline in future years.

The block grant (i.e., providing a district a fixed percentage of its prior year budget) aids planning by reducing uncertainty. This technique provides little incentive for districts to maintain instructional programs, however. It is clear also that future funding of community colleges will be based on a workload (probably ADA) measure. Another transition from block grant to ADA funding could result in another series of difficult adjustments similar to those that took place during 1979-80. Finally, use of the block grant for districts experiencing significant decreases in ADA likely would conflict with Proposition 4.

3a. *Include inflationary adjustments that permit maintenance of program quality.*

It is important that inflation in the cost of college resources be accurately identified and funded. Only in this way can the colleges' "buying power" in relation to students served (a rough proxy of program quality) be maintained. For example, while college funding increased dramatically between 1970 and 1976, buying power declined due to increased enrollment and resource inflation (see Appendix E).

Two years prior to Proposition 13, increases in college expenditures per student exceeded increases in the cost of college resources. This was the result, largely, of decreases in ADA together with significant increases in local property tax revenues. Consequently, there was an increase in the amount of "real" resources behind each student. Following Proposition 13, funding has approximated costs for those students served. The quality of college programs has been maintained, but access generally reduced. At the same time, staff compensation has lagged behind increases in the cost-of-living.

Future increases in community college tax revenues may not be sufficient for increases in both inflation, resource costs, and workload. If so, community colleges must obtain supplemental revenue, curtail growth, increase productivity, or some combination of these options if they are to maintain program quality. In any case, more precise aggregate "price indices" are needed to determine what has and is happening to community college programs, and what further adjustments for inflation, workload, and programmatic change are appropriate.

3b. *Make more significant and equitable annual adjustments for unwarranted disparities between districts in total revenues, relying on such factors as (1) pre-Proposition 13 assessed value per ADA and tax rates along with (2) current measures of revenue per ADA, access, and program.*

AB 8 contains an equity factor which adjusts the standard inflationary increase: (a) upward for districts with below-average revenue/ADA and (b) downward for districts with above-average revenue/ADA. Adjustment provides a gradual leveling of the revenue/ADA for all districts.

"Equalization of local property wealth" differences is no longer a direct policy issue for community colleges. With few exceptions, local tax rates, as limited by Proposition 13, are all at the same maximum rate. The portion of the resulting property tax revenue accruing to community college districts is, under the AB 8 approach, applied to a district's total authorized budget revenues. The remainder is the state apportionment, which equalizes local property wealth differences.

Historic district cost differences result from a combination of factors, some of which (size, community, instructional mode, geography, etc.) ought to be observed, while others (prior wealth and tax differences, aberrations from the use of block grants, etc.) ought not to be observed, but corrected.

In 1977-78, the revenue per ADA in large (exceeding 3,000 ADA) districts, ranged from $1,255 to $2,440, a difference of nearly $1,200 per ADA. Funding techniques since passage of Proposition 13 have reduced this difference by more than one-third. When small districts are excluded, it is estimated that the absolute dollar difference in 1980-81 will approximate $800 per ADA (See Appendix F), and that ratio of high to low districts will be about 1.5 to 1:

(1980-81)		(1977-78)
$2,500/ADA	High	$2,440
1,650/ADA	Low	1,255
800/ADA	Difference	1,185

Many factors contribute to this range. Community college funding has undergone numerous changes in the last five years and the current funding mechanism, working off a "base plus" concept, locks in historic funding patterns.

Prior to Proposition 13, state aid was added to local property tax receipts to produce the total revenue for a district. A local board decision to levy less than the maximum tax therefore produced less than the maximum revenue per ADA. These tax revenues were established as the base revenues in the block grant in 1978-79 and have been carried forward in AB 8 in 1979-80 and 1980-81. Block grant revenue for each district in 1978-79 was independent of the ADA generated. Districts which increased ADA in 1978-79 became

relatively less "wealthy" in terms of revenue per ADA and districts experiencing a drop in ADA become more "wealthy." Thus, while the range of differences narrowed in 1978-79, considerable shifting within that range took place.

Most (41 of 57) "large" districts fall between $1,800 per ADA and $2,200 per ADA, a range of $400. A range of this size may be judged as encompassing "warranted" revenue difference due to program, clientele, size and/or geography. If not, or if there is concern about districts falling outside this range, it is essential to decide what should be equalized. Is it sufficient to act merely on dollar differences or should the approach be sophisticated to acknowledge certain other priorities?

One of the top priorities of the Board of Governors for the community colleges is "equal opportunity for access to quality community college education for all eligible individuals in California...." Perhaps current access or program availability differences should be used to adjust district revenues in order to achieve more equitable access to educational opportunity thoughout the state.

Approximately 80% of community college expenditures are for salaries and benefits for employees. Consequently 80¢ of every equalizing dollar adds to or comes from payments to employees. Revenue per ADA equalizing (as employed by AB 8 of 1979) ignores, perhaps inappropriately, differences in the cost of staff resources. It also ignores cost differences across program offerings. As labor agreements and industry demands fluctuate, the cost and availability of personnel and equipment in certain programs fluctuates as well. Equalizing revenue per ADA without regard to program mix may require districts to eliminate, inappropriately, such higher-than-average cost programs.

At least five different policy tools may be employed to equalize or reduce unwarranted disparities in funding among districts. Three of these tools simply reduce, by formula, differences in revenue per ADA. The fourth tool, also a formula approach to numerical differences, would rely on expenditure, rather than revenue differences. The fifth tool would adjust upward the base budgets of certain low revenue districts identified by observed deficiencies in their fiscal capability, program and/or apparent accessibility. A sixth option, that of simply doing nothing and ignoring funding disparities, appears neither feasible nor desirable.

1) *Continuation of AB 8 Policies*

The AB 8 equity factor and equalization of incremental support rates, along with upper and lower constraints on total funding, reduced revenue per ADA differences by nearly $200 in 1979-80. Even without the constraints in 1980-81, differences will be further reduced by between $50 and $100.

While this tool reduces the dollar gap, it may not do so quickly enough for many low revenue districts. In addition, it is possible that extra funding is provided to inherently (and legitimately) low-cost districts. At the same time, some high-cost districts, who are inherently high-cost perhaps because of their use of mostly full-time faculty and the offering of many small-sized laboratory courses, may be forced to reduce the quality of their programs over time.

2) *Use of AB 8-type equalization, but using expenditures, rather than revenues, per ADA as the index.*

A comparison of this tool with what is expected to happen during 1980-81, using revenue as the measure, shows a similar narrowing of district funding, but some dramatic differences for individual districts.

For some "low revenue" districts, expenditures exceed revenues through the use of reserves. Other districts also are spending more than they take in, but are rapidly exhausting their reserves. Both districts are affected similarly by this policy option, but the tool unnecessarily jeopardizes future budgets for the district with low reserves. A third group of low revenue districts who lack reserves are forced to limit their expenditures to their revenues and, therefore, are not affected by a shift from revenues to expenditures. Similar, but reversed, conditions exist for the high revenue per ADA districts.

Use of expenditure variations as an index for equity incorporates too many local board decisions to be "equitable." This tool does suggest, however, that some attention could be paid to district reserves. However, for many reasons, use of reserves in formulas for funding operating budgets is not an effective policy tool.

Use of reserves in a funding formula like that employed in SB 154 for 1978-79 is not productive for several reasons. First, it is inequitable since a fixed "protected" percentage, such as the 5% in SB 154, for unrestricted reserves can't incorporate all the legitimate variation in needed reserves that exists among districts. Some districts may need greater protection. Second, "prudent" managers may well be penalized. Reserves set aside, but not formally restricted for anticipated needs (under effective long-range budgeting) may be expected to subsidize another district that spent down all or most of its reserves without regard for the future.

Third, use of one district's reserves to subsidize another district may abrogate certain explicit or implicit fiscal commitments by locally-elected boards to their constituents. Fourth, incorporating unrestricted reserves in a formula creates unintended incentives. Prior to Proposition 13,

reserves were restricted for certain purposes that may no longer be high priority. Districts, however, will be reluctant to unrestrict reserves for reallocation to presently higher priority uses if, once restricted, some of these funds go to subsidize other districts.

Reserves constitute a stock of revenue accumulated, in many instances, over several years. Once spent, this stock of reserves is not necessarily regenerated. At best, the spending down of reserves for general fund operations represents a short-term solution to a long-term problem, and likely compounds fiscal difficulties in subsequent years.

Reduced state funding of capital outlay projects in recent years has forced districts to rely on restricted reserves to meet critical deferred maintenance and facilities needs. Reserves should continue to be considered an alternative source for capital, but not operating budgets, and be applied equitably.

3) *Phasing, over five years, all "large" districts to the present interquatrile revenue per ADA range of approximately $300.*

Under this alternative, districts falling outside the interquartile range of revenue per ADA, during 1980-81, would be phased toward the quartile such that the gap is closed by 1985-86.

Preliminary simulations show that this tool narrows the revenue range somewhat more rapidly than the AB 8 mechanism for those very high or very low districts, but is somewhat less rapid in its narrowing for districts closer to the interquartile boundary.

4) *Reducing the differential between low and high revenue districts by a fixed percent each year.*

This alternative is employed by restricting the high revenue districts to: the difference between the high revenue per ADA district and the mean revenue per ADA district to less than 50% of the prior year differential between high and low districts. Similarly, the low revenue per ADA district would receive no less than a level that is less than 50% of the prior year differential.

This tool tends to compress a number of districts at the same level (in much the same way as alternative 3) above. While narrowing the range, this alternative suffers from the same problem as the other "number narrowers". Program, access, and need differences are neglected.

5) *Making adjustments to the base budgets of certain low revenue districts, identified by measures of fiscal capability, program and access.*

This policy option goes beyond the numbers concept and involves identifying a limited number of districts who, according to several factors or conditions, can be described as "disadvantaged" due to fiscal reasons and who, therefore, qualify for an "equity" adjustment. This adjustment would be a one-year or several-year phased addition of revenue (perhaps on a fixed dollar sum per ADA) to the base budgets of each of these districts.

Basic to identifying these districts would be a condition of limited fiscal capability. Other factors or conditions could include:

program/course offerings
accessibility
staffing and facilities

Other proxies for district capability, such as revenue per population, are being studied as well.

The objective would be to identify those dozen or so districts who have limited fiscal capability, whose services appear below average, and whose activities because of the staff and facilities employed are not inherently low cost. Such districts clearly are in need of an increase in their support. The premise of this approach is that district funding wouldn't be reduced (increased) solely because it is high (low) in terms of revenue per ADA.

This option could be used in conjunction with or as a replacement for one of the "numbers narrowing" options described above. If used by itself and if no new monies were available, this proposal could redistribute funds from, say, 60 districts to 10 districts. If, for example, $10 million had been distributed to 10 low capability districts during 1980-81, then 60 districts would have received like inflationary increases of 8%, rather than the range of 4% to 14% inflationary increases that will take place under AB 8 equity techniques.

Difficulties in this option involve (a) identifying those factors which do indeed characterize low capability and (b) developing accurate and valid measures of these factors.

3c. *Use measures that are cost-related to fund workload changes in instruction and support services, relying on the "incremental cost" concept.*

At least one major objective in distributing funds to community college districts for workload changes is that the change in funding coincides as closely as possible with the change in costs resulting from the workload. In this way, fiscal incentives for making

programmatic changes are "neutralized." That is, planners are not discouraged from starting or expanding needed programs because they're not fully supported, nor are planners encouraged to start or expand low cost but unneeded programs simply because they generate "extra" funds.

How do the usual measures fulfill this objective? Use of one support rate per ADA (as in AB 8) obviously over-supports low cost and under-supports high cost programs. Use of an average cost rate to support added ADA would overfund the actual (incremental or marginal) cost of this added workload. Conversely, reducing a district's budget at an average cost rate for loss in ADA would result in insufficient support. Use of classroom contact hours (ADA) is not necessarily an accurate measure of workload changes in nonclassroom independent study or in noninstructional support services.

Correcting these problems is not a simple task. Relatively sophisticated and accurate cost-accounting data are required. Not all of these data are available. Even if they were available, use of multiple support rates, while improving some planning and budgeting incentives, may create other incentives that turn out to be less desirable.

District workload changes are currently supported at their "incremental" costs. Lacking precise data, AB 8 defines incremental costs as two-thirds of the district or statewide average cost per ADA, depending upon the district's size and whether its ADA is increasing or decreasing.

Use of incremental cost rates is intended to measure more precisely, than did the traditional average cost mechanism, year-to-year fiscal changes faced by districts. This measure provides for both increases as well as decreases in enrollment and works well for small (though not for very large) changes in enrollment.

The classroom contact hour (ADA) does appear to appropriately measure classroom instructional workload and serves as a reasonably good proxy for the differential costs involved in using lecture versus laboratory techniques for instruction. Indeed, if the credit hour were to be used, differential rates would be necessary for the different instructional types. (See Appendix G for illustration of this problem.)

It's noted above that classroom contact hours may not be an accurate measure of nonclassroom workload changes. If this is the case and if the increase in part-time students is greater in some districts than in others, use only of ADA for funding tends to under-fund the former districts and over-fund the latter districts.

One possible policy option is to use a formula in which a district's funding for workload changes would be based upon changes in both

classroom contact hours (ADA) and
headcount enrollment

(See illustration of this policy in Appendix H).

A reasonable empirical test of this policy is difficult. Due to the use of ADA to determine most or all district revenues, historic expenditures for noninstructional activities are as closely related to ADA as they are related to enrollment. Preliminary analysis has noted, however, that ADA is somewhat more closely related to instructional expenditures than to noninstructional expenditures. This tends to support arguments that the use of ADA has controlled expenditures in noninstructional areas, even though workload in these areas may be more a measure of factors other-than-classroom contact hours or ADA.

Incentives resulting from this policy change are also difficult to assess. It's clear that, other things being equal, districts with higher-than-average increases in part-time students will benefit. It can be argued that this will increase incentives to offer those programs that enroll part-time students. However, if this were done at the expense of programs that would have enrolled full-time students, then the district is not better off fiscally by adopting such a strategy. Perhaps more to the point is the notion that future demographics, the kinds of students that will enroll, and their program and load preferences are determined largely independent of college program and course scheduling. In this case, the policy tool of including enrollment as well as ADA to determine funding would appear to more closely support all future needs, noninstructional as well as instructional.

Another option, in the Board's Long Term Finance Plan, proposes using several measures to determine workload changes for a district's funding:

classroom contact hours (ADA)
headcount enrollment
size and character or age of physical facilities
number of staff

These factors would be used to produce a district allocation whose use is unrestricted. Even so, many district managers argue that a formula disaggregation of this kind could be devisive and could constrain local collective bargaining and budget development. While the necessary data are available, any added precision in relating revenues to workload costs may not be worth the "price" of a decrease in the effectiveness of local decision-making.

A third option would be to provide differential support rates for different programs. For example, changes in physical science ADA would be supported at a different, presumably higher, incremental rate than would changes in, seemingly less-expensive, social sciences. At present, data are not available to make this option work. The cost of constructing accurate direct and indirect costs of programs, then determining the fixed and variable and, thereby, marginal or incremental, costs of programs would be extreme.

3d. *Add an explicit funding provision for community services where partial state funding would be combined with user fees and other revenues.*

The Credit/Noncredit Course Study completed recently in response to an AB 8 mandate recommends that educational and funding decisions about community college courses not be based on the simplistic dichotomy of "credit" and "noncredit," but rather on a new classification describing "instructional" and "community" services according to the purpose of the course.

The Board's Long-Term Finance Plan suggests full public subsidy of instructional services and partial public subsidy (supplemented by user fees and other revenues) of community services. Post-Proposition 13 "bail out" funding retained, in theory, more than 90% of previous funding. In spite of this, community service budgets and activities were cut by more than half and there is no explicit funding provision for community services.

An explicit funding policy for community services needs to be developed and proposed for 1981-82 and beyond. Among the policy alternatives to be examined are: (a) formula funding with an incremental cost feature, grants to match local fees, (b) equalized grants to match local fees, (c) percentage equalization of district expenditures for community services, (d) categorical aid, (e) maintenance of effort provisions, and (f) status quo.

Use of an incremental cost feature (a), like that proposed for instruction would be difficult due to the lack of adequate measures for community services workload. Grants to match local fees could be inequitable. Only one-third of the districts who conduct community services charged fees during 1978-79.

Percentage equalization of community service expenditures would be consistent with Board of Governors policy contained in the Long-Term Finance Plan and with the recent Chancellor's study of credit and noncredit courses. Along with expenditures, the number and relative wealth of adults residing within districts could be added as factors to determine specific allocations.

Unrestricted use of the matching funds also would be consistent with Board policy not to create any additional categorical programs. Restricted use (only for community services) would be consistent with community service funding prior to Proposition 13.

There appear to be some community college activities (perhaps termed community services) that are of more private benefit to the individual pursuing the activity than to the public; and therefore, may not be eligible for full funding.

On the other hand, community services are an integral part of the community college mission and, in many instances, are the first contact individuals have with the college. In some communities, the community college provides virutally the only collective cultural/educational experience. Indeed, there appear to be sufficient public benefits forthcoming from these services as to warrant a partial subsidy.

Further, and perhaps most important, some public tax support of community service likely is necessary to ensure their availability to those low income individuals who are unable to pay user fees. None of the traditional student financial assistance is available here. Thus, any policy of public support will be more effective if accompanied by some measure of the relative financial ability of individuals in a particular district.

Preliminary interpretation of the new classification noted above suggests that a number of cultural and recreational courses, now totally subsidized by the public, would be classed as community services. Under this policy option, such courses would shift from full to partial public subsidy. Consequently, some of the added cost for the partial subsidy would be offset.

Also of importance to this issue are the similar programs offered by UC, CSUC, and particularly, K-12. Continuing concern about possible duplication of adult education activities between K-12 adult schools and community colleges has resulted in the creation of an Adult Education Commission. This group is charged with (a) developing policy recommendations on delineation of functions and (b) exploring equitable funding of similar programs in the two segments, with findings reported to the Legislature by March 1981. Community college finance proposals need to be closely coordinated with work of the Commission.

Short of a major change in the responsibilities of the two segments, it is likely that funding for community college classes/services that also are offered by K-12 adult schools in certain areas will need to be reconciled with the level and technique of support for those schools.

3e. *Add a funding provision for state matching of funds from business, labor, and public agencies to supplement the existing support of occupational education.*

One possible source of supplementary revenue for community college operations is a greater contribution from the private sector resulting from increased work by colleges for business, industry, and labor unions. This work consists of training individuals for first careers, new and different careers, and skills upgrading on present jobs. State incentive grants could be provided, for example, on a matching (dollar for dollar) basis to those districts with whom business and labor unions contract for occupational training.

Several other factors argue for greater efforts by community colleges in occupational training to be accompanied by greater fiscal support from business and labor. In spite of the several suppliers of trained manpower, many fields are in short labor supply in California. One of the numerous consequences of Proposition 13 was to reduce the tax contributions of business and industry to community college support by nearly $200 million during 1978-79 or more than one-fourth of the pre-13 tax subsidy. In view of the community colleges' role in occupational training, it can be argued that some restoration of this contribution through contracts or other means is warranted.

Aside from a small amount of activity in apprentice training, community colleges do not receive any appreciable monetary support from either labor or business for occupational education. The present fiscal structure together with other conditions has not, apparently, provided districts with sufficient incentives to utilize a potentially significant supplementary source of fundings.

In many instances, high developmental costs (not covered under present funding) prevent implementation of programs. Training in high technology programs is typically a much higher-than-average cost and can only be sustained with supplementary funding. Such costs are attributable to either equipment and/or low sized classes.

Any viable public-private matching proposal needs to (1) improve the present incentives and (2) resolve the issues of appropriate staffing and the closed/openness of classes. At present, ADA are counted and public funding provided in those instructional classes where there is immediate presence of a district faculty member and the class is open to the public. At the other extreme, when classes are closed and/or there is not a district teacher immediately present, public funds cannot be provided. The only exceptions to this are (a) independent study of SB 941 (1978) which allows general supervision, other than immediate presence of faculty, and (b) certain courses such as in police science, where classes can be "partially closed."

3f. Add a funding provision for differentially higher support of college centers, enrolling between 500 ADA and 3,000 ADA, while retaining existing differentials for small districts and small colleges. Eliminate mileage condition for small college funding.

Small districts have received differentially higher funding for more than a decade. Prior to 1976, "necessary" small districts below 1,000 ADA received extra aid from a stepped function. Beginning 1976-77, this formula was expanded to provide extra support to districts enrolling up to 3,000 ADA from a function where revenues are inversely related to district size. Beginning in 1979-80, small colleges (below 3,000 ADA), located more than 15 miles from the central office in a large district, were added to this same formula.

The small college provision was a major policy improvement. The mileage condition, however, makes little sense and should be removed.

These differential payments are based on the micro-economic theory of scale-economies in production. Costs per student decline as a college grows (economies of scale). At some point, due to course sectioning and staff and facility duplication, costs per student stabilize and may even increase once the college grows beyond a certain enrollment (diseconomies of scale).

Small colleges are needed to afford access to special populations such as the geographically isolated. Extra financial support is required if these colleges are to offer quality programs that are sufficiently diverse as to meet the needs of their students. Empirical analysis shows that small colleges are more expensive.

For many of the same reasons, college "centers" are also disproportionately expensive. These centers are too small to be colleges, but large enough to require support services such as a director, student personnel (counseling, etc.), learning resources (such as library, media, tutorials) and other activities whose costs are relatively fixed. Smaller outreach centers consisting of one or several courses do not face such added costs.

Unit costs per student for these centers likely fall somewhere between unit costs of small colleges where a larger support complement is required and larger colleges where larger classes and other scale-economies reduce unit costs.

This policy option should encourage the development of outreach centers to serve additional or new populations. This should reduce transportation costs facing potential students and, therefore, expand educational opportunities. Second, this option also should encourage greater use of existing community resources, rather than the construction or purchase of new facilities. Third, the lack of support services at such centers (a common criticism) should be alleviated to some extent by recognizing their cost.

The state's interest in having such centers appropriately planned and located would be protected by existing Title 5 (Administrative Code) requirements for their review and approval at the state level.

It is estimated that as many as two dozen such existing outreach would be eligible for support. Most of the existing centers serve urban and/or inner city populations.

The funding formula could be based on either (a) fixed dollar differential per student, or (b) a sliding scale similar to that employed for small districts and colleges. Once calculated for existing centers, the added funds would simply become part of a district's base budget. Added students at existing centers or at a new center, once approved, would need to be "priced" to include the differential.

Differential funding for the four largest districts was incorporated in the base budgets of these districts at a rate of $15/ADA during 1979-80. While no further adjustments to these districts for problems of extreme size appear warranted, study is continuing.

An upper limit to appropriate college or district size is difficult to determine. It is doubtful, however, that as a general rule community colleges should be planned to exceed 15,000 to 20,000 headcount enrollment. Where circumstances require larger institutions, steps need to be taken to organize, finance, and design instruction and supporting services so that quality does not decline and student access is not impeded.

Generally, colleges are not allowed to increase enrollment without limit. Districts experiencing significant growth establish additional colleges. This typically requires certain additional efforts at coordination and management. It can be argued, the largest districts may need extra funding due to diseconomies of scale. The largest district, Los Angeles with 69,000 ADA, reports higher-than-average expenditures while 7 of the 8 other largest districts exceeding 18,000 ADA were funded at below-average levels during 1979-80.

Supplemental language to the 1980 Budget Act requires the Chancellor's Office to review both large and small funding factors. Staff is assessing these factors to determine if the impact of current policy is consistent with the theory and with the objectives for which the factors were introduced.

4. *Limit categorical aids to those currently in operation for*

programs and services for handicapped,
extended opportunity programs and services (EOPS) for the disadvantaged,
child development,
the fund for improvement of instruction,
student affirmative action, and
bilingual teacher education

and support increases in these programs for inflation, workload, and achievement of objectives.

Chancellor's Office staff is proposing increases in several of these programs for 1981-82.

For Handicapped Students Programs and Services, staff recommends adding a 9% inflation factor costing $1,549,980 and adding $3,024,313 to serve an additional 5,251 students. No additional funding is recommended for limited potential students until a legislatively mandated study of this aspect of the program is completed. The proposed augmentation totals $4,574,293.

For Extended Opportunity Programs and Services, staff recommends adding $1,905,508 for a 9% inflation factor on grants and services to students and $1,074,726 to serve an additional 3,500 students. Staff also proposed to reduce slightly the set-aside for special projects and to continue funding for administration at the same level as 1980-81. The total increase recommended is $2,980,234.

For second-year (1981-82) funding of Student Affirmative Action projects, staff recommends seeking legislation to redirect prior-year loan funds available in the Fund for Instructional Improvement. In this way, continuity can be assured in this priority program without increasing general fund expenditures.

4a. *Increase the Fund for Improvement of Instruction, designate more use of this fund for specific objectives and establish provisions for matching other funds.*

This Fund annually supports more than one hundred small projects, each costing less than $30,000, from a total appropriation of $800,000. Use of the Fund was evaluated for the Board by staff in June 1980. While this evaluation was favorable, there is concern that projects may become somewhat repetitive, may not always be widely disseminated, and may not sufficiently emphasize critical needs.

A moderate expansion of the Fund, designated for certain objectives, appears in order. Two important examples of such objectives are in the areas of general staff development and specific program and curriculum development in high and/or emerging technologies. In addition, provisions should be added so that the Fund can match the many other sources of revenue available for similar projects.

Under two alternatives for implementing these changes, monies from the Fund could be distributed on:

(a) a "grant" basis: similar to that used currently, but with a request for bid (RFP) procedure that specifies the major project objectives; or on

(b) an "entitlement" basis: where each district's allocation is based on some measure of the major objectives (i.e., if the major objective were staff development, the measure could be number of staff). Expenditures would be restricted to those objectives and evaluated for their impact on a post-audit basis.

4b. *Revise funding formulas for the handicapped if so indicated by the results of a legislatively-required study.*

The Board of Governors and Chancellor's Office provide state-level management of programs and services conducted by community colleges for students with handicaps. $17.2 million will be allocated to districts for this purpose during 1980-81 under a "direct excess cost" formula. The Legislature has requested a thorough study of these programs and their funding by February 1981. Funding proposals from this study need to be coordinated with work on general apportionments.

Legal requirements for allocating funds to districts stipulate that cost, need, activity, and performance (to some degree) be the controlling factors. Specific clientele are to be identified and there is a fixed sum of money to be distributed. Final allocations appear to be the result of a balance of political feasibility, legal sufficiency, and programmatic needs.

There is continuing debate about (a) how to determine the fixed total funding; (b) the appropriate weight to give each factor or variable in the formulas; (c) validity and reliability of data used to specify each variable; (d) impact (incentives, etc.) created by the allocations; (e) whether, in fact, the allocation formulas distribute funds in the fashion intended; and (f) measures of excess cost and local ability and/or local contribution (beyond the state aid) toward the cost of such programs.

5. *Rely on the Capital Outlay Fund for Public Higher Education (COFPHE), as specified in AB 2973 (1980), for support of community college capital outlay.*

Tidelands oil revenues are dedicated, under AB 2973 (1980) to several uses, including energy projects, the peripheral canal, and the Capital Outlay Fund for Public Higher Education (COFPHE).

This Fund will contain $125 million annually for capital outlays in UC, CSUC and the community colleges. Estimates of tidelands oil and gas revenues, the source of this fund, were revised downward recently due to lower prices received for California oil in the work market. Even so, annual tidelands revenues are expected to be nearly $600 million during 1981-82, peaking at nearly $700 million in 1983, then falling to between $200 million and $500 million annually by the end of the decade. Even given the needs of UC and CSUC, there appear to be sufficient funds in the COFPHE to support the capital outlay needs of community colleges during the next five years.

6. *Revise the basic structure contained in AB 1171 (1980) for community college capital outlay planning and funding.*

The Board's Long-Term Finance Plan recommends providing districts with the maximum flexibility feasible for planning and managing their facilities. The emphasis of state activity should be shifted from detailed pre-audits of proposals to post-audits of facility utilization and general space and energy management efforts along with planning assistance to local district.

Statewide project priorities should be explicit and should recognize the increasing importance of repair, remodeling, alterations, major maintenance, and equipment replacement, in contrast to the decreasing importance of new construction. Formula-based determinations of capital outlay need should be emphasized.

AB 1171, revising the Construction Act, expires after 1981-82, and, in any case, has no feature for explicit capital outlay funding of repair, remodeling, alteration, and maintenance projects which cost less than $100,000 ("minor capital outlay") but which cannot be absorbed within the operating budgets of districts.

6a. *Simplify and decentralize the capital outlay review process.*

The Community College Construction Act of 1980 (AB 1171) specifies the general management and plan and project review procedure for major capital outlay projects. These provisions perpetuate a complex and redundant procedure where similar specific review activities are performed by the Chancellor's Office, Department of Finance, Legislative Analyst and State Public Works Board.

Each February, more than a hundred projects for new construction, remodeling, and equipment are submitted to the Chancellor's Office. After review, the Chancellor selects projects that are to be supported, informs the districts, and submits these projects to the Department of Finance for further review, inclusion in the Governor's Budget, and, ultimately, legislative approval. In recent years, Chancellor's Office review typically reduced the proposed projects by half and the Department of Finance further reduced proposals so that fewer than one-fifth were eventually funded. This process is subjective, time-consuming, redundant, and counter-productive. A further duplication occurs when the Public Works Board approval is required before the Board of Governors may allocate funds for expenditure by a district.

Needed is a simplified planning and review procedure where the scope of coverage is expanded to include expenditures for lease and lease-purchase projects. While aggregate appropriation decisions would continue, as they must, to be a legislative determination, specific planning and review decisions would be shifted from the Department of Finance and Public Works Board to the Board of Governors. Like the apportionment for operating purposes, project funds would be distributed by the Board to districts using statutory formulas and criteria.

One alternative to the current system would be one where legislation was enacted which annually allocated, by formula, a portion of the Capital Outlay Fund for Public Higher Education (COFPHE) directly to the Board of Governors of the California Community Colleges.

While retaining statutory control over the aggregate capital outlay funding for community colleges, this process would eliminate the inefficiencies of the present process. Within available funds, the Board of Governors and Chancellor would review and fund major projects using traditional utilization standards and fund minor projects using a series of entitlement formulas. For the necessary accountability, post-audits of capital expenditures and evaluation of space utilization and management could be provided to the Legislature and other executive agencies such as the Department of Finance, Public Works Board, and Postsecondary Education Commission.

Another alternative would involve the same allocation process but, a neutral agency such as the Local Allocations Board would be given control of the COFPHE fund appropriation. The Local Allocations Board is currently doing the capital outlay review and approval for K-12, performing functions similar to those as the Chancellor's Office Facilities Planning Unit. The Board is currently composed of both executive branch and legislative members. A change in membership might be appropriate if the capital outlays for community colleges, University of California, and California State University and Colleges were to be added.

Other alternatives, representing variations on the above proposals, are under examination.

6b. *Add minor capital outlay project entitlement formulas to fund remodeling and alterations, major maintenance, and equipment replacement projects of less than, say, $250,000.*

Proposed are formula driven entitlements to each community college district for minor capital outlay projects for maintenance, remodeling, equipment replacement, and repairs. The entitlements would be funded from the COFPHE funds, would be separate from the general apportionments, and would be restricted in use.

Districts would maintain a separate fund for the entitlements and would be required to account for the use of the entitlement revenues as well as other expenditures of a similar nature from other funding sources. Some form of matching requirement, based upon district reserves, would condition each entitlement.

Three separate entitlements are proposed for maintenance, equipment replacement, and remodeling and alterations.

Maintenance can be broken down into several distinct categories, including roofs, plumbing, electrical, fenestration, paint, floors, heating and cooling, security, landscaping, parking and physical education, among others. Since it is likely that the entitlement will cover only a small portion of the maintenance costs at each district, it is not necessary to be able to calculate each district's maintenance cost precisely based on all of the above factors. Rather, a more simplified formula based on much more aggregate factors such as gross square footage, type and age of buildings, campus acreage, enrollment and perhaps some measure of climatic zones is proposed.

Ideally, a separate formula for equipment replacement also would be based on a limited number of factors such as assignable square feet, type of instruction (lab versus lecture, etc.) and age of equipment and/or buildings.

Due to the current lack of inventory data, however, the entitlement for equipment replacement may need to be included initially in the maintenance formula. As additional data become available, a separate entitlement will be considered.

Remodeling and alterations costing in excess of $100,000 currently are considered major capital expenditures and are covered under existing capital outlay procedures. The "cut-off" amount for "minor" or smaller projects should be adjusted upward to, say, $250,000. Funds for smaller remodeling and alterations based on some assessment of programmatic changes or plant obsolescence is proposed. Existing facility inventories and five-year plans specify anticipated district remodeling and alterations. Specific techniques for identifying need and distributing funds for remodeling will be developed using such information sources.

It is proposed that a limit be established to the amount that can be carried forward from year to year from the entitlement. This is because (1) funds are limited, (2) the funding formulas are new and untested, and (3) districts vary in their current efforts toward maintenance. Once a district reached its limit in the maintenance fund, it would not be eligible for additional entitlements. The amount of the limit, its method of determination, and its advisability are under study.

The seventy community college districts currently use and manage 41,240,000 gross square feet in 3,200 publicly owned buildings in California. The current replacement cost of these facilities is approximately $5 billion. With building costs increasing at 20% per year, the replacement cost will reach $12 billion by 1985 and nearly $30 billion, or $1,000 per California resident, by 1990.

The oldest college buildings still in use were built in the early 1900's. The bulk of today's capacity was constructed since 1950 with slightly more than half of the gross square footage less than 15 years old. Ninety percent of this gross square footage is in good or satisfactory condition. Ninety buildings with 1-1/3 million GSF (3% of statewide GSF) need restoration. Seventy buildings with another 1-1/3 million GSF need major updating, modernization or remodeling. Two hundred thirty buildings with 3/4 million GSF are slated for demolition or termination.

In the last two years, community college districts have spent an estimated $135 million per year on plant operations and maintenance, or about 11% of total noncapital expenditures. Staff salaries and benefits account for approximately 55% of this $135 million. An additional $5 million per year has been spent on equipment replacement. It is estimated that $2 million is spent per year on emergency repairs and that an additional $7-$8 million should be spent per year on deferred maintenance.

6c. *Increase state-level assistance to districts in planning and utilizing facilities and dealing with energy problems.*

At present, it is not always possible for the Chancellor's staff to provide direct assistance for facility planning to local districts. Smaller districts that do not have their own facility planning

departments could certainly use consultative help from the Chancellor's staff specialists in their planning efforts. All districts, regardless of size or staff, could benefit from an arrangement that would allow Chancellor's staff to spend more time in the field working with local district people on local planning problems.

Under this proposal the Facilities Planning Staff of the Chancellor's Office would continue to be a facilitating, coordinating, and planning support group for the state for obtaining maximum value from state funds with the appropriate return of control to the local district. However, under this proposal, the emphasis of capital outlay planning could be shifted over time from a detailed precheck of each individual project to an emphasis on space management and facility utilization. Emphasis could be put on assistance to districts such as that already underway in the area of energy problems.

6d. *Introduce a new capital outlay post-audit and evaluation process in conjunction with emerging efforts in planning and compliance.*

Under this proposal, post-audits would be made of expenditures from the minor project entitlements to ensure that funds were spent for the appropriate categories of maintenance, equipment replacement, and remodeling. Post-audits would also provide needed data for improving formulas in the future.

Evaluation efforts would concern space utilization and space management. This information would be used to assist districts, as noted above, in their planning and management. In addition, the information would be used to provide other executive branch agencies and the Legislature a measure of accountability for capital expenditures.

6e. *Expand incentives for the use of other funds to supplement the COFPHE allocation for capital outlay.*

(discussion to be added)

7. *Reduce Education Code and Title 5 constraints on districts' ability to plan and allocate resources, in conjunction with planning and compliance efforts.*

Community colleges need greater flexibility if they are to continue to be community-oriented, become more cost-effective (as they must with scarce funding), and set priorities effectively. This includes flexibility to allocate funds among competing local uses and to plan and manage college operations. This greater flexibility can be accomplished in part by removing existing legal constraints on the use of college resources together with a major change in college accountability from emphasis on short-term efforts to emphasis on long-term planning and results. This latter shift in emphasis is a

major objective of the project on "Planning and Compliance." That project is an ongoing activity, although a few key policy changes may be appropriate for inclusion in finance legislation.

7a. *Eliminate existing restrictions on calendar and course scheduling.*

Another significant set of constraints on resource utilization are those Education Code sections dealing with calendar and course scheduling.

California Community Colleges are the last group of postsecondary institutions in the nation to rely primarily upon a traditional calendar where the fall semester extends beyond Christmas and classroom instruction takes place over 35, rather than the usual 32, weeks. Efforts at flexible scheduling are made impossible by existing legal constraints. Colleges cannot undertake nontraditional scheduling with assurance of sufficient resources until outmoded Education Code provisions for (a) length and arrangement of calendar and (b) measuring student workload are revised.

For the past four years, six districts have experimented with alternative calendars under the "Flexible Calendar Pilot" project. Also under special legislation, Cabrillo has operated a different ("4-1-4") calendar with considerable success for the past nine years.

The pilot experiment, including Cabrillo, expires at the end of 1981-82. Preliminary evaluations of the project support the adoption of certain of the tested policy changes. The Board of Governors' Long-Term Finance Plan, in fact, encompasses this notion. Prior to implementing the pilot, however, certain issues need to be resolved: (a) which specific provisions of the pilot should be implemented vs. discarded, (b) should the provisions be permissive or mandatory and for some or all districts, and (c) how can calendar and course scheduling policy changes be effectively coordinated with funding policies?

Some of the specific policy options would:

(a) retain 175-day academic year, but with 160-day instructional year minimum (ensure that no monetary gain or loss results from this policy change),

(b) base student census on course length, rather than term length;

(c) provide for variable length terms within the academic calendar rather than the equivalent length terms as at present; and

(d) encourage variable calendars, including such practices as year-round operation, four-day weeks, and other scheduling arrangements which more effectively utilize existing staff and facilities, while maintaining or enhancing the quality of instruction provided students.

7b. Reduce existing restrictions on independent study

Statutory provisions for the funding of independent study (SB 941, 1978) expire at the end of 1980-81. New legislation is required and should seek to extend the funding coverage beyond just credit/transfer instruction. Also, some effort should be made to incorporate provisions for developmental costs and a review should be made of Title 5 regulations which limit class size.

FURTHER STUDY

Certain other issues dealing with staff and students have an indirect impact on community college finance, specifically in the way districts utilize their human and physical resources. These issues should receive further study in an effort to develop solutions to identified problems. These solutions should be implemented independent of the major finance legislation.

Statutory Provisions on Staff Employment and Compensation

Decisions on staff hiring and compensation along with selection methods for delivering instruction and support services should continue to be made locally. Statutory constraints should be removed, where possible, and new policies developed in order to allow districts to achieve more effective development, utilization, and maintenance of existing and future staff, the colleges' most important resource.

Effective allocation of scarce funds for staff, for example, can be enhanced by removal or modification of many existing constraints, such as the Fifty Percent Law, in the Education Code. Such constraints frequently deal with staff employment, utilization and compensation. Matters of this kind are appropriately determined by local collective bargaining. Once the bargaining process is fully implemented, arbitrary statewide legal constraints may be considered for removal or modification.

Another concern has to do with part-time faculty. Prior to Propostion 13, community college part-time faculty exceeded full-time faculty by a ratio of about two to one. While many part-timers were not rehired in 1978-79, a number were rehired both last year and this year. It is estimated that there are 16,000 full-time faculty and 29,000 part-time faculty now teaching in community colleges.

The status of part-time faculty is unclear. Appropriate sections of the Education Code are subject to varied interpretations and several recent court rulings have not reduced the confusion. There are differing opinions about the proportional compensation which part-time faculty should receive compared to that received by full-time faculty. While collective bargaining may resolve this problem at the local level, there is still discussion of state-mandated pro rata pay.

Also of importance are the rights and responsibilities of part-time faculty. These two issues may be resolved prior to the compensation issue in view of the expected fiscal situation.

Interdistrict Attendance of Students

Many of the problems which arise from extremes in district and/or college size are due, in part, to district geographic boundaries. Most such boundaries were set more than a decade ago and many are now out-of-date (in relation to college service areas) because of the state's changing demographics.

An equalization mechanism of the sort provided by AB 8 and use of attendance, rather than residence, ADA render district boundaries unimportant for purely fiscal purposes. Boundaries are still important in enrollment determinations, however, since the interdistrict attendance of students is still restricted by law.

Districts must enroll their own residents but need not enroll those individuals residing in other districts. Interdistrict attendance of community college students is governed by a complex of notices of restriction, agreements, and individual permits and is only "guaranteed" if students cannot obtain desired programs in their resident districts.

Board of Governors' policy advocates a liberalization of such attendance restrictions. Under this policy, students would be allowed to attend the college of their choice - subject to available facilities - affording priority to residents, and allowing a district to restrict the outward flow of residents after it exceeds 10% of prior enrollment.

Another policy option: Total "free-flow" of students between districts, also would enhance access. It also, however, could cause significant enrollment shifts among certain districts which, in turn, could result in (a) temporary under- or over-utilization of staff and facilities, (b) racial and ethnic imbalances, (c) a significant loss of students in certain small districts, (d) counter-productive competition, (e) discrepancies between trustee areas and the actual areas of student enrollment, and (f) for some colleges, a change in the "community" served.

Free-flow is the current policy for districts in San Diego, Orange and many other counties of the state. Districts in certain other areas of the state, however, do not allow unrestrained interdistrict attendance of students. In such cases, it is likely that some students are unable to attend the college closest to their residence. It is even possible that some are required to commute past a nearby college of another district to attend college in their own district of residence.

Other issues

Other areas that are being studied and for which legislation may be sought include the state and local funding of college child development and apprenticeship programs.

Analysis by staff of potential future trends in federal institutional aid for community colleges will continue. Present speculation suggests that the new administration may support a shift from categorical to general (revenue sharing type) allocations. The Board of Governors may wish to take an explicit position on a revenue sharing program for education, that would supplement existing state and local programs.

APPENDICES

A. Finance Task Force

B. Assumptions About the Future

C. Community College Funding and ADA

D. Proposed Finance Technique

E. Price Factors

F. Distribution of Districts by Revenue Per ADA

G. Fiscal Comparison of Contact and Credit Hours

H. Alternative Workload Funding Policy

APPENDIX A

FINANCE TASK FORCE

Patrick Arter
Student Representative
San Diego Mesa College

Lois Carson
Member, Board of Trustees
San Bernardino Community College District

Ian Hardie
Chairman, Finance Task Force
California Community College Trustees

Mrs. Trudy Hill
Vice President for Instruction
Grossmont College

Jun Iwamoto
Asst. Chancellor, Business
San Francisco Community College District

Paul Meyer
Executive Director
Faculty Association, California Community Colleges

James Lee Morgan
Faculty Member
West Los Angeles College

Archie Morrison
Vice President, Stu. Personnel Services
Santa Monica College

Virginia Mulrooney
President
CFT Community College Council

Joe Newmyer
Vice Chancellor
North Orange County Community College District

Cal Rossi
Executive Director
California Teachers Association

Omar Scheidt
Superintendent
Palomar Community College District

Thomas L. Stevens, Jr.
President
Los Angeles Trade-Technical College

Robert Swenson
Executive Director
Accrediting Commission for Community and Junior Colleges

Dale Tillery
Professor, School of Education
University of California, Berkeley

Tom Van Groningen
Superintendent/President
Yosemite Community College District

Kenneth S. Wheeler
Vice Chancellor, Business
State Center Community College District

Mary Lou Zoglin
Asst. Director, Governmental Relations
CCJCA

STAFF

Chuck McIntyre, Director
Analytical Studies
Chancellor's Office

APPENDIX B

ASSUMPTIONS ABOUT THE FUTURE

Staff has conducted a preliminary review of possible future conditions and trends. Important to community college finance planning are future trends in general conditions: the stability or instability of existing social institutions and general lifestyles. Fluctuations in economy, generally, and in the labor market, specifically, affect enrollments and the planning and funding of different kinds of instruction. Possible future changes in public policies, potential tax revenues, and the operation of other segments of postsecondary education also will affect community colleges.

General Conditions

It is expected that California's population will continue to grow at a rate of about 1.5% annually. Greater proportions of the population will be middle-aged and will be made up of individuals of minority racial and ethnic background, particularly Hispanics. There will be a continued trend to later and possibly smaller families. Numbers of single parent families will grow and there will be continued progress toward male/female equality.

In the "near term" (1980-85), there will be limited changes to general lifestyles and social institutions as they now exist in California.

For the longer term, some futurists foresee dramatic changes in political and social institutions as America enters what Toffler terms the "third wave."[1] This post-industrial era (the term used by earlier writers) involves dramatic changes in family life: less commuting, more working at home, and changes in male/female relationships, education, urbanization, and related public policies. Along with such changes, Toffler argues, will occur growth of industries dealing with electronics, computers, aerospace, genetics and oceanics. Mass production electromechanical industries using expendible fossil fuels will be replaced by those industries relying on renewable sources of energy.

Other authors envision a "new American Dream" in which individuals seek to strike a balance between work and leisure, consumption and conservation. Public opinion surveys suggest that individuals do not want to give up gains in affluence and economic security obtained in the 1950's and 1960's.[2] These same surveys, however, suggest the American public would now forego the sacrifices needed to obtain the kind of significant growth in the economy and in new products that was experienced during those decades.

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[1] Toffler, Alvin. The Third Wave. New York: Morrow & Co., 1980

[2] Lefkowitz, B. and Yankelovich, D. "The U.S. in the 1980's "The Futurist, Vol. 14, No. 4. August 1980.

Some analysts, such as Herman Kahn of the Hudson Institute, feel it is possible for the economy to support both traditional economic growth and nontraditional new values or quality-of-life policies. Other analysts, such as sociologist Amitai Etzioni, argue that even the most optimistic projections of growth in gross national product preclude major simultaneous gains in both traditional and nontraditional directions.

As evidenced by recent tax reduction initiatives, the public is reluctant to increase its support for governmental programs. Lack of public confidence in public institutions, however, does not appear to extend to higher education. After a low in confidence during the late 1960's, higher education now rates at the highest level among American institutions.[3]

Support for California community colleges is also high. A 1979 public opinion survey by Field Research Corporation revealed that nearly nine out of ten California adults can name a local or nearby community college, and one in every twelve is actually enrolled in such an institution. Further, almost one of every two adults surveyed indicates that he or she has attended a California community college at one time or another.[4]

In addition to being aware of and involved in their community colleges, Californians also support the goals of the local colleges. Majorities of those surveyed found all but one of the community colleges' eight functions to be "very important." Those functions include preparing people for work, providing transfer courses, providing general education, helping students improve basic skills, offering an opportunity for lifelong learning, providing supportive services, and offering special interest, cultural, and recreational programs.

More than half of those surveyed rate the community college's performance to be excellent or good in work preparation, academic transfer, general education, and lifelong learning programs. Fewer, but still above half, feel the colleges are doing an excellent or good job of providing supportive services to students. Only in the case of basic skills education does a majority of those surveyed see less than good performances. Nearly one of every two adults also feels that the community colleges are doing an excellent or good job in making effective use of the money they get.

There is no reason to believe that this high level of support for community colleges will diminish in the near term.

More general projections of the American future involve alternative scenarios of optimism and pessimism. Optimistic areas, summarized by Marien, cover several advances, all technological: means to alleviate the energy crisis, microbiological research and biological research to

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[3] Carnegie Council on Policy Studies in Higher Education. Three Thousand Futures. San Francisco: Jossey-Bass, 1980.

[4] Field Research Corporation. A Survey of California Public Attitudes Toward the California Community Colleges. Sacramento: State of California, October 1979.

extend the life span, improvements in communications, and activities in outer space. Factors leading to pessimistic scenarios include (a) an escalating arms race, (b) increasing population, decreasing resources, and a deteriorating environment, (c) economic depression, and (d) potential decreases in the quality of life.[5]

Analysis of the 1980-85 American economy by Data Resources, Inc. (DRI) suggests a relatively pessimistic scenario. DRI's model projects a rate of GNP advance that will be below that of the past two decades, sluggish productivity growth, and core inflation of between 8.5 percent and 9 percent annually.[6] Core inflation reflects price increases due to trend costs of capital and labor. In contrast to core inflation, fluctuations in the Consumer Price Index are more volatile due to variations in excess demand, together with internal and external shocks, such as OPEC oil price changes.

Eckstein presents several possible remedies to this situation, including demand management, tax incentives for capital formation (thereby increasing productivity and reducing core inflation), and reducing U.S. oil imports. Even if such measures were successfully implemented, inflation could be expected to continue at annual rates exceeding 7 percent during the next five years (due to core productivity problems) and unemployment at rates between 6 and 7 percent.

These are national estimates. Near-term expectations for California are more optimistic. California's economy appears to have been somewhat less affected by the recession of 1980 than was the rest of the nation. It is expected also that California will rebound from the 1980 recession more quickly and in a stronger fashion than the rest of the nation. The State Department of Finance, in May 1980, estimated that the state's personal income would increase by 12.4% in 1980 and 12.2% in 1981, both changes exceeding that expected for the nation.[7] California's unemployment rate was expected to average 7.3% during 1980 and to peak at 8.6% during the first quarter of 1981. (The third quarter 1980 rate was 7.1%.) The recession began, for California, during the second quarter of 1980 and was not expected to be reversed until 1981. However, most indices of activity suggest that the economy began an upswing by the end of the third quarter of 1980.

California's economy is expected to be better than that of the nation for a variety of reasons. The State's economy is broadly based, rather than dependent on one or two industries. Aerospace is strong and is expected to become stronger as increases in defense spending, proposed by both Congress and the new administration, are implemented. Agriculture is another source of economic strength for the state as is the distribution of employment. Those sectors least affected by recession (finance and services) make up a larger share of employment in California than elsewhere. Those sectors most affected by recession (construction and manufacturing) constitute a relatively smaller share of the state's jobs.

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[5] Marien, M. "The Good News and the Bad News," The Futurist, Vol. 14, No. 3 June 1980.

[6] Eckstein, O. "Economic Choices for the 1980's," Challenge, Vol. 23, No. 3. July/August 1980.

[7] Department of Finance. Supplement to the 1980 Economic Report of the Governor. Sacramento: State of California, May 1980.

Employment

During this decade, general trends to shorter, more flexible work weeks will continue. Prior trends toward earlier retirement may be modified in light of recent legislation. It is possible that changes will take place in the traditional sequence of the education/work/retirement life cycle. Mid-life career changes will increase in their frequency. Recent trends toward relatively more jobs that are service and communications-oriented and knowledge-intensive will continue.

For the first half of the decade (1980-85), the State Employment Development Department (EDD) projects a 2.6% average annual rate of growth in employment. This contrasts with the 5% annual rate that took place during the second half of the past decade. The 1976-80 rate is considered to have been atypical, reflecting a large expansion following the 1973-75 recession (the most severe since World War II). In an earlier 1975 report, EDD projected a five-year growth in new jobs of 950,000. Employment actually rose by 2,220,000, more than twice the rate projected. California's economy is projected to continue growing during the first half of the next decade, but in a more moderate fashion than that experienced during the past five years.

It is expected that the percentage of males who participate in the labor force will continue its historic decline while the participation rate for females will continue to increase, though at a lower-than-recent rate. The result will be an overall increase in labor force participation. A decline in the state's unemployment rate is also projected for the next five years.

It is also anticipated by some planners that the decreasing 18-24 year-old age cohort of the population will result, by the mid-1980's, in an improved labor market for college graduates. Until that time, however, the general under-employment of baccalaureate degree winners projected by the federal Department of Labor is expected to persist.[8]

The largest percentage growth in California employment during the next five years is projected by EDD to occur within the trade, service, and manufacturing industries, while government, construction, mining, and agriculture are projected to grow the least:

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[8] Department of Labor. Ocupational Outlook Handbook, 1978-79 Edition. Washington, D.C.: U.S. Government Printing Office, 1978.

	Industrial Job Growth 1980-85 (000's)	Ratio of 1980-85 Growth to 1976-80 Growth
Services	504	.71
Trade	384	.83
Manufacturing	248	.71
Finance, Insurance, and Real Estate	123	.89
Transportation, Communications, and Utilities	53	.72
Government	47	2.76
Construction	40	.27
Agriculture	14	--
Mining	3	1.50
TOTAL	1,417	.76

Community colleges train individuals in skills that are applicable to all these areas. Of interest to planning and financing educational programs are shifts or trends that are projected to take place in specific occupations.

Industry growth comprises only a portion (1.4 million) of the new job opportunities projected to be available between 1980 and 1985. Replacement demand due to retirement, disability, death or extended withdrawal from the labor force will generate another 1.8 million opportunities.

During this next five-year period, the occupational structure of employment in California is expected to change only modestly (see Table 1). However, it is projected by EDD that:

- managers, officials and proprietors,
- sales workers,
- clerical workers, and
- service workers

will become a greater proportion of total employment. At the same time,

- professional and technical,
- crafts
- operatives (such as semi-skilled assemblers),
- laborers, and
- farm workers

will become a smaller proportion of those employed in the state. In this regard, California trends are similar to those expected for the nation as a whole.

TABLE 1
CALIFORNIA JOB OPPORTUNITIES
(in 000's)

	1980 Jobs	1980-85 Job Opportunities Growth	Replacement	1980-85 Total
Professional, Technical	2,038	206	1,799	3,216
Managers, Officials, Proprietors	1,200	176	273	398
Sales Workers	903	147	189	337
Clerical Workers	2,161	326	376	702
Craftsmen	1,354	150	178	328
Operatives	1,339	163	169	333
Service Workers	1,395	209	271	480
Laborers	390	37	54	91
Farmers and Farm Workers	290	2	62	64
TOTAL	11,070	1,417	1,799	3,216

Within this scenario of a structurally stable, but moderately expanding labor force, particular problems warrant attention. One problem identified by EDD concerns the economic dislocation facing individuals and communities affected by business and industrial plant closures in certain areas of the state. Another problem is the lack of skilled workers for California's emerging high technology fields such as the alternative energy industries based on solar, geothermal, biomass, and other renewable sources. Other such fields include microelectronics, information processing, and a variety of rehabilitation industries.

A third, and perhaps the most important, problem is a significant under-utilization of the human resource potential of certain subgroups within the state's population. Nearly half of those unemployed are between ages 16 and 24. Minority job seekers, now almost 30% of the state's labor force, experience almost twice the rate of unemployment that is experienced by non-minority job seekers. Unemployment among older workers is typically of much longer duration than for other groups.

Postsecondary Education

Efforts to provide general access to opportunities for postsecondary education will continue, particularly for those who have not always enjoyed such opportunities: elderly, minority, low-income and female students. Trends toward life-long learning will continue, especially in community colleges.

Over the long term, it is expected that there will be more flexible work-study arrangements. Also, there is likely to be increased use of non-traditional or alternative teaching technologies, including extra-classroom activity and off-campus outreach along with greater use of media such as computers and television to aid faculty in teaching students.

Nationwide, undergraduate enrollments are expected by the Carnegie Council to be relatively stable until 1983, followed by a decline that will extend to the end of the decade. Two years of relative stability will then be followed by another decline between 1991 and 1997. By that time undergraduate enrollment will be about 10 percent below current levels.[9]

The National Center for Educational Statistics (NCES) projects an earlier, 1981, peaking in total public college enrollment at 9.3 million followed by a 5 percent decline that extends through 1988. By contrast, two-year college enrollments are projected by NCES to peak at 4.43 million in 1983, decline just 1.6% to 4.35 million in 1987, and increase slightly in 1988.[10]

The general skill levels of entering students (as measured by the Scholastic Aptitude Test) continues to decline. During the past decade, scores of California's college-bound high school seniors declined by nine percent on the verbal portion and four percent on the math portion. Future trends in these measures cannot be projected with any certainty. It is clear, however, that current skill levels of those students considering two-year as well as four-year college enrollment are below skill levels demonstrated by similar students during the 1960's.

The subject areas in which students enroll will change, though specific trends are uncertain. With a short lag, the labor market trends described above suggest certain areas in which students will enroll for occupational training. Trends toward greater enrollment in occupational training are expected to continue in the near term with a possible shift toward the liberal arts taking place in the mid-1980's when the labor market conditions ease for younger workers. However, a number of other influences, such as the expected increase in frequency of mid-life career changes, could act so as to obscure such enrollment trends.

California State University and College (CSUC) undergraduate enrollments are projected to remain relatively stable, increasing by less than 3% during the period 1979 to 1984 (see Table 2). University of California (UC) undergraduate enrollments likewise are projected to be virtually stable, increasing by just 2% during the next five years. This depends, however, upon funding and upon a possible continuation of recent trends whereby UC eligibles who once enrolled first at a community college enroll instead as freshmen at a UC campus.

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[9] Carnegie Council on Policy Studies in Higher Education. Three Thousand Futures. San Francisco: Jossey-Bass, 1980.

[10] National Center for Educational Statistics. Projections of Education Statistics to 1988-89. Washington, D.C.: U.S. Government Printing Office, 1980.

TABLE 2
CSUC UNDERGRADUATE ENROLLMENT PROJECTIONS

YEAR	NO.		%
Fall 1979	240,884		
1980	243,500	2,616	1.08
1981	246,300	2,800	1.14
1982	247,600	1,300	.52
1983	248,400	800	.32
1984	247,800	- 600	- .24
NET CHANGE (1979-84)		6,916	2.87

UC UNDERGRADUATE ENROLLMENT PROJECTIONS*

YEAR	NO.		%
Fall 1979	92,803		
1980	93,500	697	.75
1981	93,800	300	.32
1982	93,800	-	-
1983	93,600	- 200	.21
1984	93,000	- 600	.64
NET CHANGE (1979-84)		197	.21

* Excludes Health Services

SOURCE: DEPARTMENT OF FINANCE

Future growth in K-12 adult schools, Regional Occupational Programs (ROPs), proprietary schools, and private colleges is uncertain. To a large degree, future state policies and economic conditions will determine the enrollment in adult schools and ROPs. Adult school ADA, for instance, declined by 47% in the two years following Proposition 13 (1978-79). A small enrollment increase is expected for 1980-81.

Enrollments statewide in California community colleges are projected to grow moderately during the 1980's, increasing by 14% in enrollment and 12% in annual weekly student contact hours (the basis for ADA) by the end of the decade. These projections, by the State Department of Finance (DF), are derived by trending historical population participation rates by students' age, sex, and academic load.

For the near-term, DF projections indicate that total enrollment in community colleges should increase 12.6% by 1984 (see Table 3). The greatest proportionate change will be in noncredit enrollments, an increase of 24,902 (16.9%), whereas credit enrollments are projected to increase by 132,609 (12.1%). Within the credit area, evening programs will increase by 14.3% while day enrollments increase by 10.3%.

TABLE 3

1980 PROJECTIONS
ACTUAL AND PROJECTED FALL ENROLLMENTS
COMMUNITY COLLEGES

Fiscal Year	TOTAL Enrollment	TOTAL Annual % Change	CREDIT Enrollment	CREDIT Annual % Change	NONCREDIT Enrollment	NONCREDIT Annual % Change
1979-80	1,248,459	.---	1,100,681	---	147,778	---
1980-81	1,309,970	4.9	1,151,260	4.6	158,710	7.4
1981-82	1,343,060	2.5	1,180,180	2.5	162,880	2.6
1982-83	1,367,870	1.8	1,201,530	1.8	166,340	2.1
1983-84	1,389,890	1.6	1,220,160	1.6	169,730	2.0
1984-85	1,405,970	1.2	1,233,290	1.1	172,680	1.7
CHANGE (1979-84)	157,511	12.6	132,609	12.1	24,902	16.9

SOURCE: DEPARTMENT OF FINANCE

Consistent with noncredit enrollment projections, total weekly student contact hours (WSCH), a good proxy for ADA, will increase proportionately more in the noncredit areas. Noncredit WSCH will increase by 13.8% whereas credit WSCH will increase by 12.0%. Within credit programs, evening WSCH will increase by 16.5% and the day WSCH will increase by 10.2%.

If Department of Finance projections are realized, the community college system must prepare to accommodate 158,000 additional students, about 75,000 additional ADA, by the fall of 1984. The most rapid growth will be experienced in noncredit programs and evening programs.

With one-fourth of districts reporting, Fall 1980 credit enrollments are up by 7.5 percent, some three percentage points higher than the DF projections. Of note is a 4.3% increase in full-time credit enrollments. This could represent a major shift in trends of recent years where full-time enrollment was either declining or stable.

Current enrollment increases are due largely to the recession and resumption of more normal program funding following the cutbacks due to Proposition 13. Most districts will continue to grow during the first half of the next decade. Following that,

34 districts will continue to grow in enrollments,
26 districts will decline, and
10 districts will be relatively stable

over the last half of the decade.

The largest growth is projected for colleges in the southern part of the state, particularly in Orange and San Diego Counties. Specific district enrollment fluctuations will result from changes in regional economic and demographic conditions, funding policies, and the activity of other nearby postsecondary institutions who supply similar educational services.

The recent trend of increased enrollment of older and female students is likely to continue (see Table 4). Declines in male enrollment may stabilize as the number of veterans, attending on benefits, stabilizes and as recent high levels of economic activity in California decline.

TABLE 4

ENROLLMENT COMPOSITION
COMMUNITY COLLEGES

	1979	1984
MALE	44.5%	43.6%
FEMALE	55.5	56.4
19 and Under	21.2%	18.7%
20 - 24	25.6	25.4
25 - 29	16.1	15.7
30 - 34	10.9	11.5
35 and Over	26.2	28.7

The current proportion of racial and ethnic minorities (three of ten community college students) is likely to increase as the proportion of minorities, particularly Hispanics, among the general population increases. The extent of this increase in minority students also depends, however, on future policies for financial aid and related services since a large proportion of these individuals are from low income backgrounds. The number and proportion of handicapped students enrolled is also expected to increase as facilities and services are made available to these individuals.

Similar to the case in other postsecondary institutions, community college staff and facilities will be relatively stable and, as a result, become older on the average. Moderate enrollment growth during the 1980's means small net additions to staff and little new physical plant construction during the decade.

Few new permanent staff have been added by colleges during the past five years. Even at present, a large number of the 16,000 full-time faculty statewide are at the top of their salary schedule. Since many of these staff were hired during the 1950's and 1960's, this condition of a stable, but aging, staff will continue throughout most of the current decade and be followed by a wave of retirements and need for new replacement staff in the 1990's.

Nearly half of the community colleges' 3,200 buildings statewide are more than fifteen years old. These buildings contain over 41 million gross square feet and their current replacement cost is estimated at $5 billion. While some new facilities will be needed, most future enrollment growth will be accommodated in off-campus centers, existing campus facilities, and/or by new technologies of delivering instruction. Thus, the average age of community college facilities will increase significantly during the coming decade.

In the near term, no major policy changes are anticipated in the Master Plan delineation of lower division functions among the three public segments of California public higher education. Subtle changes in this delineation may take place, however, as both UC and CSUC face potential declines in undergraduate enrollment and compete more vigorously for younger lower division and older continuing students.

Major adjustments to the present delineation of function for adult education between K-12 adult schools, ROPs, and community colleges are possible, though not likely, even in the near term. Current work of the Adult Education Commission may contribute to such changes.

Tax Revenues

Some features of community college finance planning must be predicated upon future trends in available California tax revenues. Identifying such trends is difficult since most experts feel it's not possible to accurately forecast the state's economy even during the next two years. (It's necessary to project economic conditions for both 1981 and 1982 in order to estimate possible 1981-82 tax revenues.) The problem is made even more complex by the expenditure or appropriation limitation imposed by Article XIIB of the California Constitution (Proposition 4, 1979.)

In spite of these complexities, it is possible to project revenues for 1981-82 and to speculate about 1982-83 and beyond.

It has been anticipated that a second impact of Proposition 13, 1978 (the first impact being those reductions imposed during 1978-79), would hit when the state general fund surplus, used to bail-out community colleges and other local agencies, ran out. The surplus will be exhausted at the end of 1980-81. Consequently, it seems certain there will be less of an increase in governmental expenditures during 1981-82 than during this or the past year. It seems equally certain, however, that expenditure increases need not be curtailed to the same extent as was the case in 1978-79, immediately following Proposition 13.

Recent annual growth rates in community college expenditures and the two major sources of revenue are as follows:

	State General Fund	Local Property Tax	Community College Expenditures
1975-76	11.6%	11.3%	12.1%
1976-77	18.8	13.3	11.1
1977-78	20.2	13.9	12.6
1978-79	10.9	9.4	-6.3
1979-80	17.1	13.8	9.4 (est.)
1980-81 (est.)	7.9	17.8	11.5

Appropriations for community colleges declined by more than 6% in 1978-79. This decline, however, has been followed by two years of more "normal" increases. Community college funding during 1981-82 depends both on aggregate available revenues (general fund and property tax) and the way in which the Legislature allocates such revenues among the programs of state and local government.

The level of aggregate revenues depends upon economic conditions and public policies. Recent projections by the Legislative Analyst incorporate a 12% increase in general fund tax revenues for 1981-82 over the current year.[11] If this increase occurs and if local property tax revenues increase by 12% to 14% as projected unofficially by the Legislative Analyst, then the potential increase for those agencies relying on these revenues would exceed 7%.

	Approximate Proportion Of Revenue	Projected Increase in 1981-82
State General Fund	.70	5.0%
Property Taxes	.30	12%-14%
TOTAL	1.00	7.1%-7.7%

[11] Legislative Analyst testimony before the Assembly Ways and Means Committee October 9, 1980.

The estimates of State General Fund revenues incorporate the impact of 1980 legislation and assume:

(a) no transfers from tidelands oil revenues to the state general fund,

(b) no state share in 1981-82 from the federal revenue sharing program,

(c) no application of property tax revenues from 1978-79 unsecured levies, and

(d) that an on-going state general fund reserve for economic uncertainties of $620 million will be maintained through 1981-82.

These estimates also assume a "healthy" California economy, including recovery from the recent downturn. Growth will be moderate with employment, personal income, and prices all increasing. Specific assumptions result in state general fund revenues of $21.5 billion which are said to be "moderately below the midpoint" of a possible revenue range. At the high end of this range, general fund revenues would equal $22.9 billion based on high inflation and good employment growth. At the "low end," revenues equal $20.7 billion, based on lower inflation and weak employment growth. Application of this range to the above calculations, assuming the same rate of growth in property tax revenues, results in an expenditure growth possibility of between 4% and 12% for state and local programs during 1981-82.

Specific calculations by the Legislative Analyst in Table 5 dramatize the differences in state general fund tax revenues that can occur under alternative economic scenarios for 1981 and 1982.

TABLE 5

PROJECTED 1981-82 STATE GENERAL FUND REVENUE GROWTH
UNDER ALTERNATIVE ASSUMPTIONS
ABOUT ECONOMIC CONDITIONS

	ANNUAL PERCENT CHANGES	
	Case 1	Case 2
General Fund Revenue Growth 1981-82	19.9%	8.2%
1981		
Inflation	15.0	12.0
Growth in Personal Income	14.0	12.5
Growth in Employment	3.0	2.5
1982		
Inflation	10.0	7.5
Growth in Personal Income	13.0	11.3
Growth in Employment	3.0	4.0

SOURCE: Legislative Analyst memo to Assemblyman Vasconcellas, August 25, 1980.

A lag in new construction during Spring 1980 will have an impact on assessment rolls and, therefore, on the increase in local property tax revenue that may be expected during 1981-82. It is unlikely that the rate of increase will match the rate (nearly 18%) recently estimated for the current year. Also contributing to a lower growth rate is the fact that 1980 was the last year for all assessors (except Los Angeles) to bring properties to base year (1975) values under Proposition 13.

Property tax revenues have grown and likely will continue to grow at higher rates than anticipated at the time Proposition 13 was enacted. With a fixed tax rate, growth in such revenues depends upon growth in property assessments. The latter, in turn is limited to 2% annually, along with current assessment on new construction and on properties whose ownership changes.

Legislation enacted during 1980 dedicated $125 million annually of tidelands oil revenues to the Capital Outlay Fund for Public Higher Education (COFPHE) beginning 1980-81. Tidelands oil revenues are projected, by State Lands Commission staff, to peak at nearly $600 million in 1982 and decline toward the latter part of the decade, though still likely to exceed $200 million per year by 1989.

Assuming the 1981-82 budget is balanced (as it must be under California law), the Legislative Analyst has estimated that "... revenue increases of approximately 11% to 12% and expenditure increases of approximately 10% would result in a balanced budget in 1982-83."[12]

Possible increases in tax revenue available to community colleges depend not only on the above conditions, but also on legislative actions to:

(a) modify the AB 8 deflator,

(b) combine (or not combine) both state and local revenues in general solutions for both levels of California government,

(c) dispose of 1978-79 unsecured property tax revenues,

(d) adjust expenditures for new or expanded programs,

(e) revise current statutory cost-of-living provisions,

(f) revise the dedicated uses of tidelands oil revenues, and

(g) enact new, expanded, or reduced taxes.

Also of importance are possible future initiatives dealing with tax revenues.

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[12] Legislative Analyst memo to Assemblyman Vasconcellos, August 25, 1980.

While not specifically mentioned, community colleges may be covered under the deflator mechanism of AB 8. If there is a revenue shortfall of at least $100 million below projections and the deflator is activated, community colleges, K-12 and, to a lesser extent, cities, counties and special districts would be significantly affected during 1981-82.

At the same time, community colleges are not among the nearly twenty state and local programs, including K-12 at 7%, that have cost-of-living increases prescribed by existing statute for 1981-82 and beyond. These "built-in" increases, if not modified, will require approximately $1.2 billion additional expenditures in 1981-82.

Given the uncertain state of California's (and the nation's) economy, definitive state general fund revenue estimates will not be available until January 1981 (next Governor's Budget), the May 1981 revision of revenue and expenditure estimates by the Department of Finance, and the June 1981 estimate of revenues by the State Finance Commission. In any case, many or most of the legislative actions to allocate available funds, therefore, determining what may be available to community colleges, will not be completed until late in June 1981.

Federal institutional aid to California Community Colleges dropped by 10 percent in 1978-79, after having gradually increased during the prior decade. Decreases occurred primarily in the Higher Education Act (HEA) Economic Opportunity Act, Veterans' Education Act, and revenue sharing through local agencies. Vocational Education Act (VEA) funding was stable and comprehensive Education and Training Act (CETA) funding increased by $4 million or 24%.

Preliminary data indicate this was a one-year phenomenon, perhaps brought on by the inability of districts to match certain grant programs, particularly HEA. Total federal funding for 1979-80 is estimated at $116, up $23 million from 1978-79. (CETA monies for 1979-80 have increased from $22 to $28 million, a one-fourth increase for a second straight year.) In spite of this one-year reversal, future federal institutional aid is uncertain. Proposed increases in defense spending along with the new administration's proposed tax reduction and balanced 1983 budget, if implemented, will mean likely reductions in other federal programs, among them education.

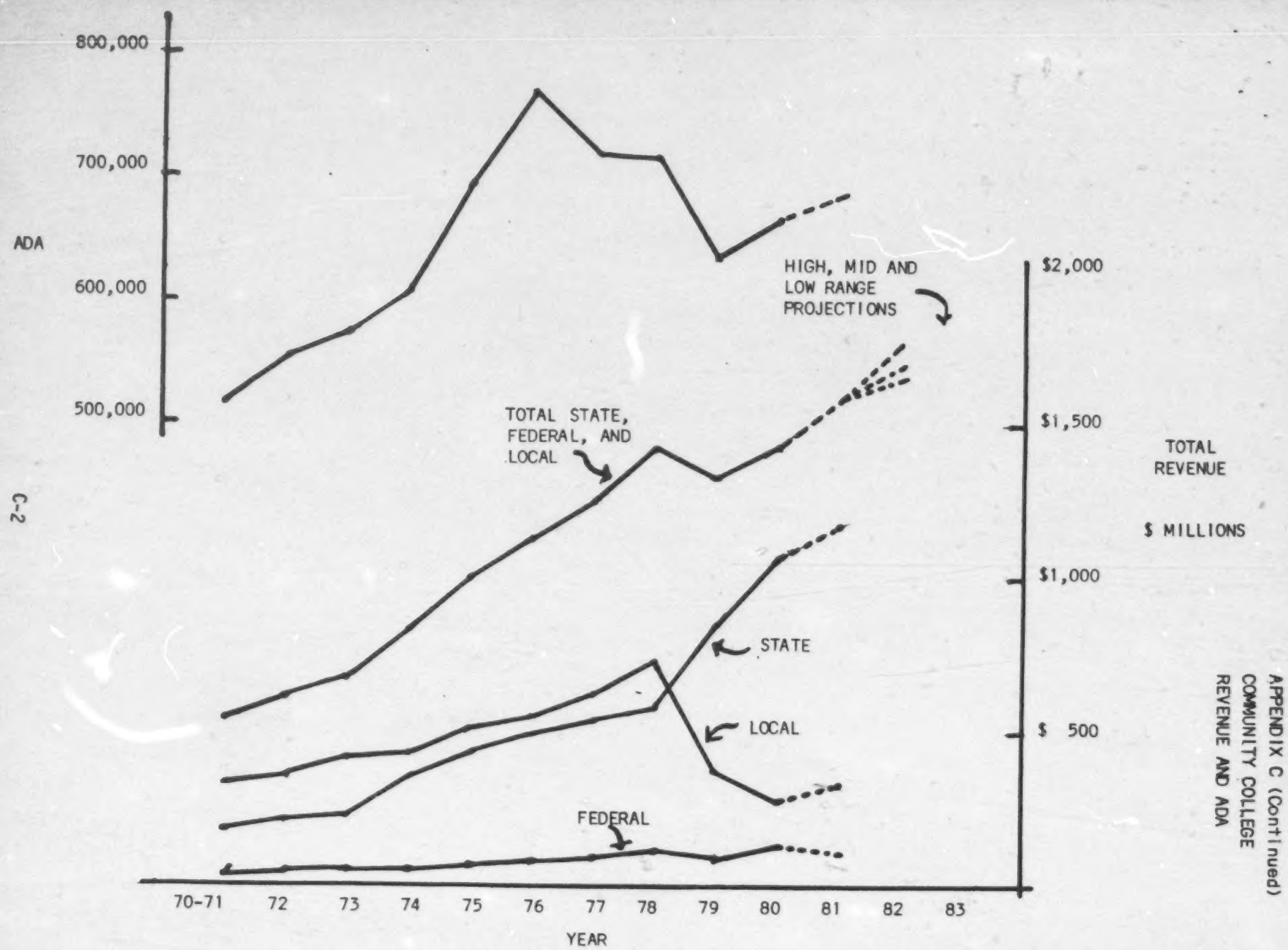
Programs such as HEA and VEA may be in jeopardy. At the same time, the new administration's plan for economic recovery could mean that training and apprenticeship (and CETA) programs continue. HEA was recently reauthorized, but funding is incomplete and likely to remain that way. VEA is to be reauthorized in 1981 and CETA is up for re-authorization the following year.

APPENDIX C

COMMUNITY COLLEGE
REVENUES AND ADA

	ADA		REVENUE ($ Million)				
	No.	% CHANGE	STATE	LOCAL	FEDERAL	TOTAL	% CHANGE
1981-82 (Est.)							
High			$ 1,678		100	1,778	4.4
Mid Point			1,603		100	1,703	2.7
Low			1,558		100	1,658	3.7
1980-81 (Est.)	689,400	3.7	1,176	322	100	1,598	9.4
1979-80	664,762	4.6	1,064	280	116	1,460	10.6
1978-79	635,372	-11.6	851	377	92	1,320	- 6.5
1977-78	718,303	- 0.5	585	725	103	1,413	12.3
1976-77	721,884	- 6.1	535	628	95	1,258	10.7
1975-76	768,902	10.8	491	556	89	1,136	13.6
1974-75	694,096	13.9	429	505	66	1,000	19.6
1973-74	609,459	6.3	349	435	52	836	23.8
1972-73	573,593	3.9	221	408	46	675	11.9
1971-72	552,208	6.7	203	359	41	603	11.2
1970-71	517,339	29.4	186	324	32	542	--

SOURCE: Chancellor's Office



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APPENDIX C (Continued)
COMMUNITY COLLEGE
REVENUE AND ADA

APPENDIX D

ILLUSTRATION OF
PROPOSED FINANCE TECHNIQUE
CALIFORNIA COMMUNITY COLLEGES

This illustration begins with two districts (A and B) in similar circumstances during the base Year 1. Following Year 1, District A grows at a rate of 5 percent each year while District B declines at a rate of 5 percent. Other assumptions for both districts include:

YEAR 1

Enrollment	15,000
ADA	10,000
Base Budget	$15,000,000
State share (70%)	10,500,000
Local share (30%)	4,500,000
Average Revenue	1,500/ADA
Incremental Revenue	1,000/ADA
Annual increase in assessed value	10%
Annual inflation in costs	7%

YEAR 2

	District A.		District B	
(1)	base + inflation: $15,000,000 x (1.07) =	$16,050,000	(1) base + inflation: $15,000,000 x (1.07) =	$16,050,000
(2)	increment: + 500 ADA x ($1,070)* =	+535,000	(2) increment: - 500 ADA x ($1,070)* =	-535,000
(3)	add, result:	$16,585,000 (up 10.6%)	(3) deduct, result:	$15,515,000 (up 3.4%)
	local share:	$ 4,950,000 (29.8%)	local share:	$ 4,950,000 (31.9%)
	state share:	$11,635,000 (70.2%)	state share:	$10,565,000 (68.1%)
	ADA	10,500 (up 5%)	ADA	9,500 (down 5%)
	average revenue:	$ 1,579/ADA (up 5.8%)	average revenue:	$ 1,633/ADA (up 8.9%)

* Year 2 incremental revenue (assumes one support rate).

YEAR 3

	District A			District B	
(1)	base + inflation: $16,585,000 x (1.07) =	$17,745,950	(1)	base + inflation: $15,515,000 x (1.07) =	$16,601,050
(2)	increment: + 525 ADA x ($1,145)* =	+601,125	(2)	increment: - 475 ADA x ($1,145) =	-543,875
(3)	add, result:	$18,347,075 (up 10.6%)	(3)	deduct, result:	$16,057,175 (up 3.5%)
	local share:	$ 5,445,000 (29.7%)		local share:	$ 5,445,000 (33.9%)
	state share:	$12,902,075 (71.3%)		state share:	$10,612,175 (66.1%)
	ADA	11,025		ADA	9,025
	average revenue:	$ 1,664/ADA (up 5.4%)		average revenue:	$ 1,779/ADA (up 8.9%)

The growing district, A, receives budget increases over 10 percent each year while B grows at just over 3 percent even though its enrollment is declining. This is due to inflation and the use of incremental support rates. If District B had lost revenue at the average rate, it would have experienced, in Year 3, a budget of $15,495,925, nearly $600,000 less than under the incremental support rate.

The average revenue for District A increases at between 5 and 6 percent yearly, reflecting economies-of-scale in the face of inflation: a lower rate than would have occurred under average-rate funding.

The state share of support is increasing in District A, decreasing in District B. This is due to the assumed high growth rate in assessed value in relation to other growth rates.

APPENDIX E
PRICE FACTORS

TABLE 1
CALIFORNIA COMMUNITY COLLEGES
CURRENT EXPENSE OF EDUCATION PER ADA
IN ACTUAL DOLLARS AND CONSTANT 1979-80 DOLLARS

	CURRENT EXPENSE OF EDUCATION PER ADA	YEAR-TO-YEAR PERCENT CHANGE	HIGHER EDUCATION PRICE INDEX PUBLIC CATEGORY IV**	PERCENT CHANGE OVER PREVIOUS YEAR	REAL EXPENDITURES IN CONSTANT 1979-80 DOLLARS	YEAR-TO-YEAR PERCENT CHANGE
1979-80	1,790*	8.4	1.000	10.0	1,790	-(1.4)
1978-79	1,651	10.6	.909	7.5	1,816	2.9
1977-78	1,492	8.1	.846	8.3	1,764	1.1
1976-77	1,380	20.4	.781	8.3	1,745	9.8
1975-76	1,147	7.0	.722	7.6	1,589	-(0.4)
1974-75	1,071	4.4	.671	11.8	1,596	-(6.7)
1973-74	1,026	6.7	.600	6.5	1,710	0.2
1972-73	962	4.2	.564	8.6	1,706	-(4.1)
1971-72	923	5.9	.519	5.4	1,778	0.3
1970-71	872	4.3	.492	/	1,772	/

*Estimated

**Category IV includes institutions without academic "rank" (with the exception of a few liberal arts colleges, this category includes mostly two-year institutions). See Halstead, K. Higher Education Prices and Price Indexes, 1978 Supplement. United States Government Printing Office (Washington, D.C. 1978) p.35.

TABLE 2
COMPARISON OF CHANGES IN STATEWIDE AVERAGE
FACULTY SALARIES AND THE CONSUMER PRICE INDEX (CPI)
CALIFORNIA COMMUNITY COLLEGES

FISCAL YEAR	STATEWIDE AVERAGE SALARY	% CHANGE OVER PRIOR YEAR	ANNUAL % CHANGE IN CPI CALIFORNIA	USA
1975-76	$19,823	7.1	7.8	7.1%
1976-77	20,838	5.1	6.4	5.8
1977-78	22,413	7.6	7.1	6.7
1978-79	24,123	7.6	9.2	9.4
1979-80	26,270	8.9	14.8	13.3

Source: Chancellor's Office

APPENDIX F

ESTIMATED 1980-81 DISTRIBUTION
OF COMMUNITY COLLEGE DISTRICTS BY STATE
AND LOCAL TAX REVENUE PER ADA

REVENUE PER ADA	NUMBER OF DISTRICTS	
	LARGE (≥3,000 ADA)	SMALL (< 3,000 ADA)
$1,600 - $1,699	1	
1,700 - 1,799	𝍸 1111	
1,800 - 1,899	𝍸 𝍸 𝍸 11	
1,900 - 1,999	𝍸 1111	
2,000 - 2,099	𝍸 1111	111
2,100 - 2,199	𝍸 1	
2,200 - 2,299	111	1
2,300 - 2,399	1	
2,400 - 2,499	1	11
2,500 - 2,599	1	
2,600 - 2,699		11
2,700 - 2,799		
2,800 - 2,899		
2,900 - 2,999		1
3,000 - 3,999		111
4,000 - 4,999		1

Source: Chancellor's Office

APPENDIX G

ILLUSTRATION OF CONTACT HOUR (ADA)
VERSUS CREDIT HOUR (FTE) AS MEASURE
FOR GENERATING REVENUES
CALIFORNIA COMMUNITY COLLEGES

This example illustrates the way in which the contact hour serves as a rough proxy for differences in costs. The example takes two extreme cases: (a) the "pure" lecture situation with three weekly class contact hours for three credit hours, and (b) the "pure" laboratory situation with nine weekly class contact hours for three credit hours. Faculty loading is assumed to be that typically employed: one contact hour of lecture equates to one teaching unit equivalent; 1.5 contact hours of laboratory equate to one teaching unit equivalent. The assumed salary is a semester equivalent of the approximate statewide average for regular contract faculty.

LECTURE		LABORATORY			
3 credit hours		3 credit hours			
3 weekly contact hours		3 weekly contact hours			
Faculty Salary 3/15 (11,000) =	$2,200	Faculty Salary 9/22.5 (11,000) =	$4,400	$4,400	$4,400
Equipment:	0	Equipment:	0	0	500
Class Size:	35	Class Size:	35	25	25
WS Credit H:	105	WS Credit H:	105	75	75
WS Contact H:	105	WS Contact H:	315	225	225
Cost:		Cost:			
$/WSCrH:	$ 21	$/WSCrH:	$ 42	$ 59	$ 65
$/WSCoH:	21	$/WSCoH:	14	20	22
$/FTE	$ 630	$/FTE	$1,260	$1,770	$1,950
$/ADA	$ 670	$/ADA	$ 467	$ 667	$ 733

From the example, it is evident that either credit (FTE) or contact (ADA) as a cost unit produce the same approximate result in lecture. This is not the case with laboratory, case (1). Here the cost per FTE is much higher than the cost per ADA, for obvious reasons.

To approximate the usual laboratory situation, case (2) reflects the smaller class size in laboratory and case (3) adds the extra equipment costs. The final costs per ADA in both lecture and laboratory are relatively close. Thus, the use of one revenue support rate in conjunction with the contact hour does not seriously misrepresent the cost differences. If an FTE basis were used, different support rates would be necessary for lecture and laboratory.

APPENDIX H

ILLUSTRATION OF ALTERNATIVE POLICY
FOR FUNDING WORKLOAD CHANGE

This example illustrates the impact on two districts, of a change in policy from (1) using only ADA to measure workload to (2) using ADA and enrollment to measure workload. Both districts, "A" and "B," start from the same conditions of enrollment and budget in Year 1. In Years 2 and 3, however, the two districts experience different growth patterns:

	Annual Growth	
	ADA	Enrollment
District A	2%	2%
District B	2%	6%

District A is not affected by the proposal because its enrollment and ADA grow at the same rate. District B, by contrast, receives additional funding for the workload attributable to the added enrollment. This addition amounts to just over one percent of the district's total budget each year and adds over a half million dollars by Year 3.

YEAR 1	VALUES FOR A AND B
Enrollment (E)	18,000
ADA	10,000
Base Budget	$20,000,000
Average Revenue	2,000/ADA
Incremental Revenue*	1,111/E
Total	1,333/ADA
Instruction	800/ADA
Noninstruction	296/Enrollment
Inflation	9%

YEAR 2

	A		B	
	Present	Proposed	Present	Proposed
(1) Base Inflation	$21,800,000	$21,800,000	$21,800,000	$21,800,000
(2) Increment (200A) $1,453 (200B)	290,600		290,600	
872 (200A) (200B)		174,400		174,400
323 (360A) (1080B)		116,280		348,840
(3) Total	$22,090,600 (up 10.5%)	$22,090,680 (up 10.5%)	$22,090,600 (up 10.5%)	$22,323,240 (up 11.6%)
(4) ADA	10,200	10,200	10,200	10,200
E	18,360 (up 2%)	18,360 (up 2%)	19,080 (up 6%)	19,080 (up 6%)
Total/ADA		2,166 (up 8.3%)		2,189 (up 9.4%)

YEAR 3

	A		B	
	Present	Proposed	Present	Proposed
(1) Base Inflation	$24,078,754	$24,078,841	$24,078,754	$24,332,331
(2) Increment				
$1,584 (204A)	323,136			
(204B)	323,136		323,136	
$ 950 (204A)		193,800		
(204E)		193,800		193,800
$ 352 (367A)		129,184		
(1145B)		129,184		403,040
(3) Total	$24,401,890 (up 10.5%)	$24,401,825 (up 10.5%)	$24,401,890 (up 10.5%)	$24,929,171 (up 11.7%)
(4) ADA	10,404	10,404	10,404	10,404
E	18,727	18,727	20,225	20,225
Total/ADA		$ 2,345 (up 8.3%)		$ 2,396 (up 9.5%)

* Assumptions used in calculation:

Inremental Rate	= 2/3 (average rate)
Instruction	= 3/5 of budget
Noninstruction	= 2/5 of budget
Enrollment	= 1.8 (ADA)

Thus,

Instruction incremental rate:

2/3 (12,000,000) ÷ 10,000 = $800/ADA

Noninstruction incremental rate:

2/3 (8,000,000) ÷ 18,000 - $296/E

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